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D 8523A

ECONOMY
Anatomy of the UK recession
Page 17

World News

Saudis deny making big profits from Gulf crisis

Saudi Arabia has denied that extra oil revenues earned since the start of the Gulf crisis are windfall profits, despite a 50 per cent leap in its oil exports since the Iraqi invasion of Kuwait on August 2. Page 4

Lebanon leaders quit
The entire cabinet of Lebanese prime minister Salim Hoss resigned, clearing the way for the formation of a new government to include the country's rival militia leaders. Page 4

Israeli concern
Israeli officials acknowledged deep concern about an emerging corruption scandal surrounding senior air force officers involved in arms procurement. Page 18

Protesters on trial
Albania's ruling Party of Labour placed 157 people on trial following last week's violent anti-government protests by workers demanding an end to Communist rule. Page 2

Help for Nadir
Turkey said it supported efforts by Turkish banks to raise £2m ($3.9m) needed to secure the release on bail of Asil Nadir, the chairman of Polly Peck International, who faces 14 charges of theft in London. Page 7

Tokyo overture
Japan is ready to deepen ties with the Soviet Union and offer substantial aid if the two can resolve a long-standing row over who owns four islands, Takakazu Kuriyama, Japan's vice-foreign minister, said.

Cholera kills 104
Cholera has killed 104 people in Zambia since it broke out in the north two months ago. An outbreak in the capital, Lusaka, killed about 200 people early this year.

Ochoa surrenders
Colombian drug baron Fabio Ochoa, one of the country's most-hunted fugitives, gave himself up amid predictions that fellow-bosses of his Medellin cocaine cartel may soon follow. Page 6

Raising a stink
French fishermen dumped 20 tonnes of herring and sardines in front of the European Community offices in Brussels in protest at EC plans to reduce catch quotas and net sizes.

SA bombing arrest
Police detained a South African foreign affairs official in connection with a bomb which blasted the Pretoria home of the US ambassador in October.

Malaysian success
Police smashed four drug syndicates in the Malaysian state of Penang this month, making 39 arrests and seizing a large haul of heroin and cannabis.

Indian revenge
Angry passengers beat 10 bandits armed with homemade bombs to death after they attempted to hold up their train at remote Labha, about 900km east of New Delhi.

New refugee chief
Mrs Sadako Ogata, a 63-year-old Japanese professor of foreign relations with experience in the UN Children's Fund, is set to be the next UN High Commissioner for Refugees. Page 4

Coup plotters jailed
A Philippine military court gave its strongest warning yet to army rebels plotting to overthrow President Corazon Aquino, sentencing 81 officers and men to jail terms of up to 32 years. Page 4

Unfair fiddle
A car thief netted two violins said to be worth about R1m ($400,000) when he stole a car parked in a street in Durban, South Africa. One of the violins dates from 1699.

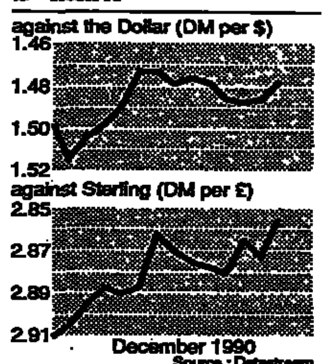
Business Summary

Belgian bank takes 45% stake in Parisian rival

Générale de Banque, Belgium's biggest bank, is to pay FFr950m ($187m) for a 45 per cent stake in Banque Parisienne de Crédit, a subsidiary of Compagnie de Suez, in its first major cross-border banking deal. Page 19

Markets: Nikkei closed closed 452.76 higher at 24,876.78. In Frankfurt the DAX index 1.4 per cent lower at 1,457.24.

D-Mark



Wall Street: the Dow Jones Industrial Average was down 3.46 at 2,623.27 at mid-session. Stock Markets, Back page, Section II

MANNESMANN, German engineering group, has sold a majority stake in the barely profitable computer business of its Kienzle subsidiary to Digital Equipment Corporation of the US the world's third largest computer business. Page 19

VENEZUELA'S national oil company, PDVSA, plans to invest $2bn for expansion and improvements at two oil refineries it owns in the US, according to an executive at the Venezuelan company. Page 3

CAMPEAU Corporation, Canadian real estate and retailing group, saw prospects darken with a 25 per cent increase in its losses so far this year. Page 19

BRAZIL'S government has declared war on the country's powerful motor industry, denouncing the two biggest producers, Ford and Volkswagen, for what the Finance Minister described as "abusive price increases" undermining the battle against inflation. Page 21

ITALIAN trade minister Renato Ruggiero said EC had not given enough priority to trade issues and should now boost efforts to reach a consensus on farm subsidies to present in the deadlocked Uruguay Round talks. Page 3

NCR, Ohio computer company which is the target of a $6.1bn hostile takeover bid from American Telephone and Telegraph (AT&T), has ruled out the prospect of a white knight stepping into the battle. Page 21

ANA, All Nippon Airways, became the second airline to acquire the new Boeing 777 twin engine wide body aircraft at the same time as placing the single biggest order to date by a Japanese airline for a European Airbus consortium aircraft. Page 18

SMITH Corona Corporation advanced another step in its decade-long campaign against alleged dumping by Japanese companies of typewriters and word processors in the US market. Page 3

BUNDESBANK'S December report says foreign investors have returned to the German government bond markets in recent months. Page 22

PRIMERICA, US financial services conglomerate, emerged as the buyer of Landmark Financial Services, MNC Financial's consumer finance subsidiary, in a deal worth $370m. The money raised will allow MNC to reduce indebtedness by around $374m. Page 21

Warning follows emergency powers plea from military chiefs and Orthodox Church

Gorbachev threatens direct rule

By **Quentin Peel** in Moscow

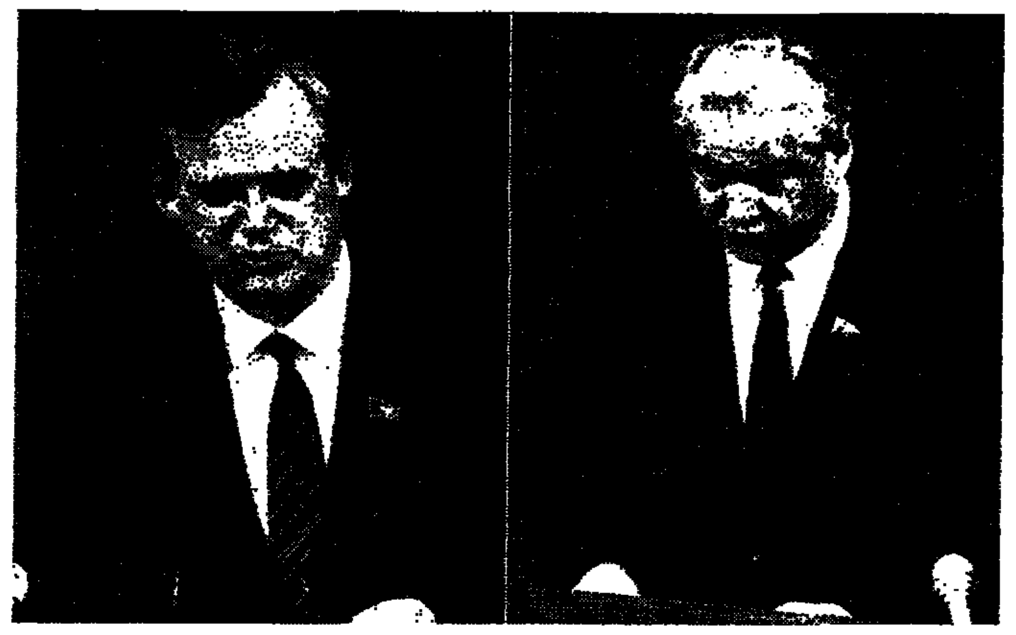
PRESIDENT Mikhail Gorbachev yesterday promised to impose direct presidential rule on conflict zones in the Soviet Union if national security or people's lives were at stake.

His warning came after an open appeal to him by more than 50 leading Soviet citizens, including most of the military high command and the Patriarch of the Russian Orthodox Church, to use his emergency powers in areas of "major conflict".

Mr Gorbachev said that if he had to impose direct rule "the president in this case will have to take full responsibility upon himself, when all my attempts to come to agreement and act jointly fail to bring about consent".

His speech coincided with an admission by Mr Nikolai Ryzhkov, the prime minister, that perestroika as it was conceived had failed.

Both men were speaking at the fourth Congress of People's Deputies, summoned to seek solutions to the economic recession, the confrontation between central government and the republics, and the collapse of law and order.



Nikolai Ryzhkov, left, and Boris Yelstin in the Kremlin yesterday

Mr Gorbachev stopped short of identifying where he might impose emergency rule, instead urging both sides in every national conflict in the country to negotiate solutions to their own problems.

But he singled out as areas of grave concern the conflict between Armenia and Azerbaijan over Nagorno-Karabakh, the ethnic disputes in Georgia and Moldavia, and the general situation in the Baltic republics.

Mr Gorbachev rejected accusations by Mr Boris Yeltsin, leader of the Russian republic and his arch political rival, about a new era of Kremlin dictatorship.

Mr Yeltsin accused Mr Gorbachev of accumulating more legal powers than any Soviet leader since the Revolution, including both Stalin and Brezhnev, the two Communist leaders whom Mr Gorbachev has most bitterly denounced.

"The time of commands from the Kremlin is past," he said. "The republics are not afraid of shots from the Kremlin. No decree will be carried out if the interests of the republics are sacrificed."

Mr Gorbachev said there was no such thing as the dictatorship of the Kremlin any more: the Kremlin belonged to everyone. "All political speculation on this score is populism with rotten roots," he said in a phrase directed at his extremely popular rival.

The background to the struggle for power in the country is the dire economic situation which Mr Ryzhkov revealed in what could be his last parliamentary report. His government is expected to be removed in a constitutional reshuffle later at the congress.

Mr Ryzhkov said he himself was to blame for an economic crisis, in which money supply has increased by Rbs22bn-Rbs23bn this year, against the planned Rbs10bn, and gross national product is expected to drop by 3 per cent.

He called for drastic presidential action to ban all republican laws and decrees which contradict the Soviet constitution and to impose a moratorium on strike action in an effort to prevent the continuing collapse of the Soviet economy. And he urged a ban on factory closures for environmental reasons, and the outlawing of all attempts to set up internal customs barriers.

He said unfinished construction projects now totalled Rbs25bn, and foreign debt servicing would cost Rbs9bn in "currency roubles" – about $17.4bn in the coming year.

"Foreign investors are refusing to give us credit on a commercial basis," he declared. "The main reason for this is not our foreign indebtedness, but in our state and political instability. Our exports decreased by 12 per cent, and our needs for foreign currency will grow." The government would have to buy 30m tonnes of grain on the international market next year, in spite of a record harvest. Just to maintain the food consumption of Moscow and Leningrad, it would have to buy 1.5m tonnes of meat, and 12m tonnes of milk and dairy products.

Republican tail attempts to wag Moscow dog, Page 2

Germans face higher rates despite US cut

By **Michael Prowse** in Washington and **Andrew Fisher** in Frankfurt

INTEREST RATES in the main industrial countries were yesterday poised to diverge in the wake of a cut in the US discount rate on Tuesday, after the Bundesbank warned that it might have to lift German rates.

Britain's monetary authorities made clear that there would be no cut while the pound was weak. This was in spite of increasingly clear signs that Britain is in a deepening recession.

In Tokyo, Mr Yasushi Mieno, the governor of the Bank of Japan, also dashed hopes of an early cut in Japanese interest rates.

The US Federal Reserve, which cut the discount rate a half point to 6½ per cent yesterday signalled a further easing of short-term interest rates. In the money markets, the US central bank engineered a quarter-point reduction in the Federal funds rate to 7 per cent.

A further cut to 6¾ per cent is expected in coming weeks because cuts in the discount rate are normally followed by a proportionate decline in the Fed funds rate.

However, the Bundesbank makes clear in its latest monthly report, released today, that it would put up rates further if the government's indebtedness rose too far as a result of the need to finance the rising costs of unity.

Germany's independent central bank said it would have to watch closely to see that the issue of new public sector debt did not go beyond a size that seemed "in accord with a controlled expansion of credit and the money supply".

It added: "In a borderline case, the central bank's interest rate policy would be called on to guard against a possible endangering of monetary stability." Any decisions would take into account the dampening effect that higher interest rates would have on the domestic economy and their impact on the D-Mark's external value.

Equity markets took some cheer from the Fed's move. The FT-SE 100 index closed up 16.9 at 2,178.7, its highest closing level since December 10, while in Tokyo the Nikkei index closed up 452.76 at 24,876.78. However, Wall Street relinquished earlier gains as renewed anxieties about the Gulf crisis took hold. The Dow Jones Industrial Average was down 3.46 at 2,623.27 in afternoon trading.

The dollar traded in a narrow range in London but sterling lost 1¾ pfennig against the D-Mark as international investors switched into the German currency following the discount rate cut. At its London close of DM2.8550, the pound was 9¼ pfg below its DM2.95 central rate in the exchange rate mechanism and only around 4 pfg above its effective lower limit.

The discount rate cut, the first in four years, was a strong indication that the Fed wants the cost of credit to fall throughout the economy. It is now more worried about recession than inflation, which is moderating rapidly.

A few regional banks have cut their prime lending rates in recent days. But the big money-centre banks seem unwilling quickly to reduce their prime rates, which have remained at 10 per cent since January. The prime rate sets a benchmark for a wide range of variable rate corporate and consumer loans.

The Fed's decision to act more aggressively on interest rates also reflects concern that an incipient "credit crunch" will prevent sound companies gaining access to funds. It follows calls from Mr Nicholas Brady, US Treasury secretary, for cuts in the cost of loans and increased lending by banks.

The Fed's move is also a response to a slowdown in the growth of monetary aggregates in recent months and follows numerous weak economic indicators that point to a fairly severe recession.

Interest rate outlook, Page 6; Markets, Section II

Solvay and ICI fined Ecu47m over soda ash cartel

By **Lucy Kellaway** in Brussels

ICI of the UK and Solvay of Belgium, were yesterday fined a total of Ecu47m ($64.4m) for cartel activities in the European market in soda ash.

The anti-trust fines, the largest ever imposed by the European Commission, were announced after the companies were found guilty of a "serious breach" of competition rules in the soda ash market, which is worth Ecu1bn annually.

ICI was fined Ecu17m and Solvay Ecu30m. Chemische Fabrik Kalk, a German company, was also found guilty and fined Ecu1m.

The Commission said the three companies had been running one of the longest-standing cartels in the European Community and had divided the market so that they were not in competition with each other. The Commission said special rebates offered by ICI and Solvay to lock in customers also abused their strong market positions.

ICI and Solvay said they would contest the decision in the European courts. ICI said it was shocked by the news and denied that its business had infringed EC competition rules.

ICI said: "Not only has [the Commission] no direct evidence of any express agreement between Solvay and ICI to continue to operate a cartel, but [it has] ignored the documented evidence in ICI's favour which makes clear that ICI has operated quite independently of Solvay." Solvay added that the level of the fine was "utterly unreasonable".

The Commission said Solvay, which developed the process for making soda ash in 1865, had been operating non-competition agreements since the end of the Second World War. Brussels expects the breaking of the cartel to have an important impact on prices, noting that the UK price of soda ash is some 20 per cent higher than on the Continent.

Any fall in prices would have an effect on glass makers, for whom soda ash accounts for some 60 per cent of raw material costs.

The Commission said the level of the fine reflected the seriousness of the infringement and its determination to make sure competition prevails in the single market.

Brussels has also refused to

Continued on Page 18

Australian appointed to head British defence procurement

By **David White**, Defence Correspondent, in London

DR MALCOLM McINTOSH, a former head of Australia's defence acquisition programme, is to succeed Sir Peter Levene as the British Ministry of Defence's chief of procurement, it was announced yesterday.

Sir Peter, who has reformed UK defence procurement and encouraged wider competition, is to join the US mergers and acquisitions company Wasserstein Perella in the new year as deputy chairman of its UK company.

The appointment, announced by the prime minister's office in London, has raised concern among some UK defence manufacturers that they may face tougher competition for UK orders because of Dr McIntosh's well-established contacts in the US arms industry.

Dr McIntosh, 45, now secretary of Australia's Department of Industry, Technology and Commerce, has been appointed initially for three years. He will head the Procurement Executive, responsible for buying equipment for all three UK armed services. A research scientist by training, he was at the Australian Department of Defence from 1982 until July this year.

"I have explained to all my European and American colleagues that we carry our open procurement competition policy even to the appointment of senior posts," Sir Peter said yesterday.

Sir Peter's appointment to the ministry post in 1985 caused a stir, not least because of the salary attached to the job – £95,000 ($183,000) at the time, which made him the highest-paid civil servant. It is understood that Dr McIntosh will receive the standard civil service salary for ahis rank – about £77,000.

Sir Peter had previously been chairman of United Scientific Holdings, a fast-growing defence group which has since fallen on difficult times.

Sir Peter masterminded moves away from "cost plus" contracts, which guaranteed contractors a profit margin, towards firm-price deals tied to incentives and penalties. He also encouraged wider competition both nationally and internationally.

In the politically sensitive contest for the British army's new tank, he backed the purchase of the US M1A2 Abrams against Vickers' Challenger 2. The government's long-awaited decision between the two has been postponed to the spring.

Sir Peter, who is 49, will be a managing director of Wasserstein Perella and a shareholder. He is due to move from the ministry in March but to comply with the customary transition period for top civil servants he will not take up his new job until mid-June.

By taking Sir Peter on, Wasserstein Perella has signalled its determination to build up its business in Europe.

It has become a leading mergers and acquisitions "boutique" since it was set up in 1988 by two former employees of First Boston Corp, Mr Bruce Wasserstein and Mr Joseph Perella. It has about 125 executives in the US, London, Tokyo and Paris. Nomura Securities of Japan holds a 20 per cent stake.

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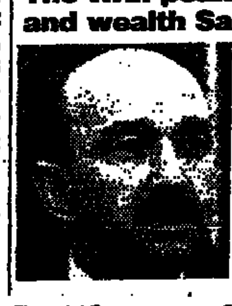
The twin peaks of democracy and wealth Salinas must scale



President Carlos Salinas de Gortari of Mexico has scarcely put a foot wrong but he is concerned because Mexican presidents have tended to start off well and end up badly. Page 15

MARKETS

STERLING
New York Lunchtime: $1.9310
London: $1.9315 (1.935); DM2.8550 (2.8725); FFr9.7350 (9.7825); SFr2.4525 (2.4575); Y259.00 (257.75); £ index 93.1 (93.3)

GOLD
New York: Comex Feb $380.0
London: $380.20 (376.95)

N SEA OIL (Argus)
Brent Feb $26.70 (25.85)

Chief price changes yesterday: Page 19

DOLLAR
New York Lunchtime: DM1.4785; FFr5.0425; SFr1.2690; Y134.15
London: DM1.4785 (1.484); FFr5.0400 (5.055); SFr1.2695 (1.27); Y134.10 (133.25); $ index 60.9 (same)
Tokyo close: Y133.27

US LUNCHTIME RATES
Fed Funds 7⅛%
3-mo Treasury Bills: yield: 6.85%
Long Bond: 108⅝; yield: 8.17%

STOCK INDICES
FT-SE 100: 2,178.7 (+16.9)
FT Ordinary: 1,707.1 (+12.9)
FT-A All-Share: 1,046.13 (+0.7%)
New York close: DJ Ind. Av. 2,626.24 (−0.49); S&P Comp 329.61 (−0.24)
Tokyo: Nikkei 24,876.78 (+452.76)

LONDON MONEY
3-month interbank: closing 13 13/16% (14 1/8)
Liffe long gilt future: Mar 89 3/8 (89 5/8)

EC to look again at harmonisation of corporate tax

By David Buchan in Brussels

MR ONNO RUDING, the former Dutch finance minister, will head a committee on the long-stalled issue of whether to try to harmonise EC corporate tax systems, the Commission announced yesterday.

Mrs Christiane Scrivener, the tax commissioner, said yesterday she had asked the committee to report within a year on the degree to which tax differences really distorted competition and investment location within the EC, on whether Community action was the proper remedy, and, if it was, whether Brussels should focus most on the tax base or rates.

Onno Ruding: promises pragmatic approach

For the past couple of years the Commission has given far higher priority to trying to bring indirect (value added and excise) tax rates together. This is partly because it realised that the recent downward drift of corporate tax rates in many EC states had rendered Brussels' earlier harmonisation proposals out of date, and because such proposals were worthless without agreement on a common corporate tax base. The share of governments' total tax take that comes from business ranged (in 1988) from 17.3 per cent in Luxembourg to 3.8 per cent in Ireland.

Mr Ruding promised his committee's approach would be pragmatic, and it would observe "subsidiarity" in only proposing action at the EC level if it could not be better carried out by member states. The outcome, he said, would depend on other committee members who are Mr Jean-Louis, president of French clothing and shoe group André, Mr Lorenzo Gascon, a Spanish economist, Mr Carlo Gatto, Fiat director, Mr William Robinson, director of the UK Institute for Fiscal Studies, Mr Albert Radler, a German tax academic, and Mr Frans Vanistendael, a Belgian tax academic.

Ministers push ahead in talks on free trade area

MINISTERS from 19 European countries yesterday pledged to finish negotiating the European Economic Area (EEA) by mid-1991, so that common rules on free movement of capital, labour, goods and services would be in place by the start of 1993, writes David Buchan.

The 12 EC states and the six members of the European Free Trade Association (Efta), together with its associate Lichtenstein, said they had identified some 1,400 EC laws as the legislative core of the planned EEA.

They noted that Efta had agreed to set up similar anti-trust and competition rules to those of the Community, and to rely on safeguard mechanisms, rather than permanent exceptions, to protect sensitive sectors, such as finance and forestry, in Efta countries.

But the EC-Efta statement warned that many problems still awaited resolution. These included the difficulty of reconciling Efta health and safety standards – often higher than in the EC – with the requirement that goods be allowed to circulate freely in the 19-nation EEA.

Other unresolved questions include how much access EC fleets would have to Efta fishing grounds.

Norway increases value of exports by 6 per cent

By Karen Fossli in Oslo

NORWAY'S exports of traditional goods rose by 6 per cent in value this year to NKr113.5bn ($19.5bn), according to preliminary estimates by the Norwegian Export Council.

The Council says this is the fourth year running that Norway has increased exports of traditional goods.

Taking into account oil and gas, exports this year will hit NKr202.3bn. Oil and gas accounted for export earnings of NKr89bn in 1990. Salmon exports, a traditional source of export earnings, increased 40 per cent to NKr4.6bn.

The Council forecast growth of 7-8 per cent in the value of exports for next year.

Export volume in 1990 increased by 11 per cent, but prices for raw materials declined significantly.

About 57 per cent of Norwegian exports go to countries within the European Community. If and when Sweden and Austria become EC members, the figure will rise to about 73 per cent.

Republican tail attempts to wag the Moscow dog

By Quentin Peel in Moscow

THE HIDEOUS glass and concrete Palace of Congresses which Mr Nikita Khrushchev dared to build within the walls of the Kremlin provides an extraordinary theatre for the great drama of collapsing Soviet power.

President Mikhail Gorbachev, Mr Boris Yeltsin, and the other key actors caught up in the maelstrom of Soviet politics, play out their lines on the stage, dwarfed by a gigantic metallic portrait of Lenin glowering over the disintegration of the system he set up.

The fourth Congress of People's Deputies, the supreme constitutional power in the union, was billed as a make-or-break time for Mr Gorbachev and the perestroika process.

The Soviet leader wants endorsement of sweeping new authority for himself, to hold the country together. The 15 union republics (or at least, the 12 which still have full delegations in attendance) are bidding for drastic devolution of power in a new union treaty.

Behind it all, the desperate state of the economy, with collapsing production, soaring inflation, chronic bottlenecks in food supplies, and a rampant black market, colours every bitter and pessimistic speech.

Three days into a forecast 10-day session, two clear elements emerge. The first is that Mr Gorbachev still dominates the stage. He is the central figure in the drama, the man they have all come to hear. They no longer love him as they did. But they do still respect him. And above all, they need him,

Western consulting firms are setting up a centre to advise Soviet enterprises on privatisation and entrepreneurship, fittingly within the walls of the Institute for Economic Problems of Socialist Countries, writes Leyla Boulton. The five founders include Arthur Andersen & Co, ConsultAmerica, and on the Soviet side, Moscow City Council, the League of Scientific and Industrial Associations, and the Soviet parliament's economic reform commission.

for they have no alternative.

He has made two lacklustre speeches, almost devoid of new ideas, falling back on the ultimate defence of a bankrupt politician: a national referendum and a willingness to seek reinforcement of his powers.

A minority have bitterly attacked him, although most have been more oblique. Yet the great majority have received his words in sorry silence, willing him to find the magic formula to save the system. For there is every reason to doubt that he can put even reinforced new central powers into effect.

The other obvious conclusion from the drama is that the battle is no longer a great ideological divide between reformers and conservatives, between ardent democrats and marketeers, on the one hand, and nostalgic Communist central planners on the other. It is between the centre and the revived republics.

Both conservatives and reformers of a certain school have pleaded for *poryadok*, for central order to replace the confusion. The former want order to reinstate the old state planning and distribution chains, which have collapsed in the first stage of economic reform. The latter want order to enforce reform, over the die-hard resistance of the Communist party and bureaucrats.

Yet the opposite camp also unites both reformers and conservatives: the common front by the republics, a confident challenge from the provinces to the all-pervasive, historic might of Moscow.

It is not just Mr Boris Yeltsin, the towering and apparently radical Russian president, laying down his insistence on Russian sovereignty with all the confidence of the popular support he knows he has.

Exactly the same theme has come from the other republics: from Mr Vitold Fokin, the Ukrainian prime minister, from Mr Nursultan Nazarbayev, the rising star from central Asia who leads Kazakhstan, and from his neighbours in Uzbekistan and Turkmenia.

Their common line is that if there is going to be a new union, then they will tell Moscow exactly what it will look like. They do not want to get rid of Mr Gorbachev. They also want a union treaty (unlike their colleagues from the Baltics, and Georgia.) But they are apparently united in intending to dictate that the new union will have a weakened, not a strengthened, Tsar.

Albanian protesters to go on trial

By Judy Dempsey, East Europe Correspondent

ALBANIA'S ruling Party of Labour yesterday placed 157 people on trial following last week's anti-government demonstrations.

At the same time, the presidium of the rubber stamp parliament adopted a decree permitting the establishment of political parties.

The decree will allow parties to be established provided they are not "fascist, racist, or anti-national". Unlike the parties which emerged after the demise of the Communists elsewhere in eastern Europe last year, the Albanian parties cannot be funded from abroad.

The "hard-soft" approach being taken by the APL indicates its determination to maintain control while giving some ground to calls for change from students and intellectuals. On the other hand, workers appear to be targeted as scapegoats for the instability in the country.

Those put on trial included workers from Elbasan, the centre of the steel industry, and from the Adriatic city of Durres. Last week, thousands of workers took to the streets demanding an end to Communist rule despite promises by President Ramiz Alia, head of the APL, that free and multi-party elections would take place next February.

Yesterday the Democratic Party, founded last week by prominent academics with close links to the Communist establishment, requested a postponement of the elections.

"It will be impossible to participate in parliamentary elections on an equal basis with the Communist party unless the date of the election planned for February 10 is postponed," it said.

The aims of the Democratic Party remain unclear. Although it called yesterday for an amnesty for all political prisoners, it has not come out in defence of those arrested and put on trial.

Some western diplomats believe the Democratic Party may be susceptible to manipulation by the APL because many of its members are close to the Communists.

German stores find it a season of joy

Katharine Campbell reports on the unity bonus for retailers

FOR THE west German retailing trade, the festive season came early. While most stores have plunged into a particularly hectic Christmas period, the real occasion for celebration came a good deal sooner. As the eastern border rolled back to reveal a market of 16m new customers, with gleaming D-Marks and 40 years of deprivation to repair, western concerns rushed in.

Initially operating from tents or converted aircraft hangars, the most successful are selling six times what they would from comparable space in the west. And with only token rents to pay, profits have been healthy.

In the old east Germany, retailing was viewed simply as the last step in the production cycle. Luxury goods were officially defined, and included such items as liver sausage.

The simplest things were unavailable. When the shops opened with western wares following currency union, old ladies walked the streets eating bananas from paper bags. Many locations have been transformed into a riot of colour. The restrictive opening hours that apply in west Germany are being blithely ignored.

On the other hand, premises are cramped and distribution systems rudimentary, and massive investments will be required to meet rising expectations. The average grocery store has a floor area of only 56 sq metres, compared with 236 sq metres in the west. Just to double this grocery area across the eastern states will cost around DM100bn (£34bn), according to estimates by M.M. Warburg, the Hamburg private bankers.

Because of this, the visible impact of the new spending power has been confined to the west German retailers and the joint ventures across the border. The west German retailing association forecasts a record year with sales of DM700bn, an increase of DM70bn, of which some DM28bn comes from "shopping tourists", particularly in Berlin and along the old border.

Turnover in east Germany in October was actually down 46 per cent compared with a year ago, according to Bundesbank figures. Space constraints mean a vastly reduced selection, some shelves are still stacked with unsaleable eastern products, and a number of east Germans have got wise to the fact they may be being charged a premium.

None the less, retailers have been taken aback by the mania for western goods. "If they want an egg, it has to be a western egg," sighs one, with only minor poetic licence. Very few eastern brands sell, and many suppliers lacking a western partner are close to collapse.

In their new "Texas", as one prominent western retailer calls it, the west German concerns are aiming at a market share at least commensurate with their position in west Germany over a period of three or four years. Initially, it will be the discounters (of food and do-it-yourself items) who profit most from the necessarily price-conscious easterners. East Germans may put away twice the quantity of spirits as west Germans and eat nearly twice as much fat (and their western cousins already consume a lot) but buying habits in east Germany will largely be distinguished by price sensitivity.

Shoppers in Halle queuing earlier this month to enter Woolworth, the first store which the company has opened in east Germany

The western retailers have not been insulated from the vexed question of ownership rights. With town planning in chaos, it has been slightly easier to arrange out-of-town sites, unknown under communism, but managers still complain constantly about the lack of district officials willing to take decisions.

The Massa discount chain, concentrating on out-of-town locations, has managed to build up one of the most extensive presences, with some 35 locations by the end of the year. By December 1991 it hopes to have doubled its 1989 turnover.

Many of the sites are temporary. The north-east German retailer AVA has been converting former military premises – which takes just a matter of weeks. The big investments to create permanent sites will come later.

An alternative has been to buy into the existing network. Department stores, whose best earnings will come later as living standards rise, have partially gone along this route. Centrum, the largest east German chain, continues to be the subject of haggling between the three largest west German stores, Kaufhof, Karstadt and Hertie, who wanted to settle the matter well before Christmas. The presence of Mr Jens Odewald, the Kaufhof chief executive, as head of the supervisory board of the Treuhand privatisation agency has fuelled acrimony between the players.

Privatising the grocery chain Handels Organisation (HO) is proving another big battle. The state-run HO used to command 57 per cent of the market. After a period of confusion, HO has now fallen into the hands of the Treuhand, and Mr Wolfgang Bernhardt, known for his part in turning around the once nearly bankrupt Co-op, is masterminding the reorganisation in a round of bidding purportedly designed to favour small independent businessmen and to discourage property speculators.

One area of resounding success has been mail order. Hitherto unknown in east Germany, it is proving an ideal way of satisfying the needs of what is still largely a rural community.

In a few years, east Germany will have a superior infrastructure. Between now and then, extensive investment will be required, but retailing is a good deal further advanced in the east than most other sectors.

TV head resigns in France

FRANCE'S state sector television services were plunged into disarray yesterday with the sudden resignation of Mr Philippe Guilhaume, chairman of the Antenne 2 and FR3 channels, writes George Graham in Paris.

His 15 months' tenure has been marked by uninterrupted guerrilla warfare with the government and by steadily mounting gloom at Antenne 2, the main general channel in the state sector, and FR3, the regional chain.

His resignation letter accuses part of the government of never having accepted his nomination, and of spreading "obstacles of all sorts along my route."

In the end, however, Mr Guilhaume had also lost the confidence of the Conseil Supérieur de l'Audiovisuel, the independent broadcasting authority which had, to the government's irritation, picked him for the job.

Mr Guilhaume leaves FR3 in the throes of a journalists' strike of more than three weeks, and Antenne 2 the cause of growing government panic about its losses, which are expected to reach at least FFr300m (£30m) this year. Both stations are thoroughly demoralised.

Soviet arms offer

The Soviet Union has proposed an immediate meeting with the US on a timetable for cutting short-range nuclear forces in Europe, Reuter reports from Moscow.

On Tuesday, Mr Manfred Wörner, Nato's secretary-general, said he expected the alliance to agree a mandate for the talks in the next six months and negotiations would start inside a year.

Fiat union deal

Fiat Auto has reached a milestone agreement with its trade unions allowing it to introduce continuous three-shift working for six days a week in assembly and engine plants it is to build in southern Italy, writes John Wyles in Rome. The company had threatened to put the plants elsewhere unless it won agreements which would yield labour costs competitive with the Japanese competition.

Car-maker cleared

Poland's biggest carmaker, FSO, yesterday welcomed a court decision clearing it of abusing its market position by overpricing, Reuter reports from Warsaw. The court ruling reversed an earlier decision by Poland's anti-monopoly agency ordering the struggling company to revert to last May's prices, cancelling steep rises in June.

Chief for Eurofer

Mr Francis Mer, chairman and chief executive of Usinor Sacilor, the French state-owned company which is Europe's largest steel producer, has been elected president of Eurofer, the confederation of European steel producers, writes Charles Leadbeater, Industrial Editor.

Europe makes life difficult for Father Christmas

By Lucy Kellaway in Brussels

FATHER CHRISTMAS was meant to have an easy time of it in Europe this year. He had been told that, for the first time, he would not have to check that train sets stuffed into a stocking in Barcelona met Spanish standards, or that tin soldiers sent to Munich conformed to German safety rules.

In fact, the wonderful single market in toys has proved almost as much of a fiction as Father Christmas himself. Since the beginning of this year, all toys were supposed to be built according to the new Community safety directive, so they could be sold anywhere in the EC. This has not happened, and many manufacturers believe the bad old days of 12 different sets of rules were preferable to today's confusion and undercover protectionism.

Their experience is particularly worrying as the toy sector is the first to be given the single market treatment. The new approach – under which a general directive setting minimum safety levels is agreed by all countries and backed up by European standards – is now starting to be applied to other areas.

As far as the toy manufacturers are concerned the present system is a shambles. In some countries, Italy in particular, the directive has still not been implemented, so that anyone wanting to sell Teenage Mutant Ninja Turtles to Italy must still make sure Italian rules are adhered to.

More worrying is the way in which the rules have been interpreted in those countries where they have been implemented. The Toy Manufacturers of Europe, representing about half the European industry, singles out France.

It says that French officials insist on checking goods before they get on to the market, which makes it impossible to send even a sample into France without lengthy delays. Several different government departments can hold the goods up for test reports and technical files are then demanded to establish the goods' credentials beyond any doubt. The UK government has written to the Commission complaining about France's apparently protectionist interpretation of the directive.

In Germany, toy manufacuturers complain that the directive has been transposed into law in a package with other laws on food and packaging, so that toys which meet all the agreed standards may still be illegal.

Nor is Britain blameless. Despite having implemented the directive on time and to the letter, there are still reports of French imports that meet all the European standards being turned away by UK officials claiming they are not safe.

According to Mr Ian Scott of the Toy Manufacturers of Europe, Brussels is not being too helpful in sorting matters out. "The Commission has tended to say 'There's your directive', and then to walk away," he complains.

Perhaps that is understandable when it has every other sector to sort out, and is trying to jolly the standard writers into clearing a daunting backlog in preparation for 1992. However, if the system cannot be made to work in this relatively straightforward area, one wonders whether it is worth going to the trouble of agreeing ever larger quantities of new rules.

Belgian labour shortages worry OECD

By David Gardner in Brussels

BELGIUM NEEDS to do considerably more to reduce its heavy budget deficit, despite strong growth and private investment, a hardening franc and low inflation, and falling unemployment, according to the Organisation for Economic Co-operation and Development.

The OECD also warns, in its latest review of the Belgian economy, of serious constraints to growth caused by a looming labour shortage because of an ageing workforce and expensive and antiquated labour market policies.

Belgium has halved its public sector deficit from 13 per cent in 1981 to 6.3 per cent last year, and halted the "snowball effect" whereby government debt mounted solely to keep pace with ballooning interest bills. However, recent improvements have come more from stronger than expected growth rather than well-targeted fiscal rigour, the OECD says.

Growth continued to be strong last year at 4 per cent (against 4.5 per cent in 1988), with capacity utilisation at record levels and private capital expenditures increasing more in the past two years than in the preceding decade. Belgians consequently enjoyed the biggest increase in their disposable income since 1976, which fed into higher savings.

With such growth, forecast to slacken to 3.5 per cent this year and 2.3 per cent next primarily as a result of higher oil prices, a pick-up in inflation, and a tightening labour market, the stabilisation of the very high debt-to-GDP ratio at about 120 per cent has happened earlier than expected.

The OECD praises the Belgian government's "dual-target" fiscal effort – designed to cut "real" or non-interest spending and nominal outlays – as well as a series of measures designed to enhance the credibility of its stabilisation plan. These include:

- Linking of the Belgian franc to the D-mark, significantly narrowing interest rate differentials with Germany;
- Abolition of the two-tier foreign exchange market;
- A still untried "law on competitiveness" designed to safeguard the improvement in unit labour costs of the past decade;
- Liberalisation of local money markets, including plans to introduce an auction system for treasury bills next year;
- Lowering of withholding tax on income from financial assets from 25 to 10 per cent.

Yet it warns that an unsustainable proportion of budgetary cuts have fallen on investment rather than current spending, and that faster income growth and a pick-up in inflation (from 1.2 to 3.1 per cent) has obscured some fiscal back-sliding.

Besides reductions in current spending it urges further cuts in high marginal income and corporate tax to boost revenue receipts. "The meagreness of (the tax system's) yield relative to its high statutory rates is only its most obviously unsatisfactory trait," it says. It also calls for bolder structural reforms to liberalise telecommunications, air transport, retail trade and retail banking.

But the report carefully underlines that Belgium's ability to grow itself out of its public finance predicament will depend ultimately on changes in labour policy, to confront "one of the least favourable demographic outlooks of any OECD member country".

The OECD calls for a serious re-evaluation of Belgium's generous early-retirement provisions, measures to enhance labour mobility and increase retraining, and more incentives for women and the elderly to stay at work.

It also foresees labour market clouds settling more gently over Luxembourg's small but vigorous economy, joined to Belgium's in a monetary and payments union. Over 80 per cent of new jobs are filled by cross-border workers.

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ECGD to win more freedom for export credit re-financing

By Peter Montagnon, World Trade Editor

BRITAIN'S Export Credits Guarantee Department is to win greater freedom to re-finance fixed-rate export credits in the capital markets under new legislation unveiled yesterday.

The legislation provides for privatisation of the ECGD's Cardiff-based short-term commercial risk insurance business, but the government is taking the opportunity to refine the law under which its longer-term project insurance business operates. The project business stays in the public sector.

The draft law, to be discussed by Parliament on January 15, gives the government wide powers to enter into financial transactions "in the interests of proper financial management of the ECGD portfolio". Bankers say this will create fresh scope for cutting the cost of interest-rate subsidies by re-financing older export credits in the bond market and using debt swaps to obtain a favourable rate.

Some recent deals have been treated in this way, but the legal conditions applying to about £5bn of older debt have made re-financing difficult. With the passage of the new law, this obstacle should be removed, but the actual volume of issues will depend on favourable market conditions.

The law also extends formal authority to ECGD to issue guarantees in European Currency Units (Ecus), hitherto only possible by breaking down the Ecus and issuing separate guarantees for each currency component. Parliament is most likely to focus on the terms for privatising the Cardiff business, estimated to have insured some £13bn of British exports in the year to end-March 1990. The plan is to transform Cardiff into a public company in April, privatising it almost immediately.

A key point in the law is that policies in force at the time of privatisation will remain the government's ultimate responsibility rather than be transferred to the newly-privatised company. The government will reinsure them with the new company which will also manage them. After privatisation of Cardiff, the government will not write new policies. Scope exists for it to keep some business in difficult markets rather than transfer to the new company all Cardiff's existing liabilities. Its Nigerian exposure could remain with the government, but the newly-privatised company would administer it.

This leaves room for negotiation with potential bidders on how much of the business they will actually buy. The sale's precise scope has not been defined in the legislation, but will be made clearer in the invitation to tender, to be sent to a short-list of interested buyers soon after the debate.

The invitation will contain detailed financial information on the part of ECGD's business to be sold, but, under the present schedule, MPs will not have access to this information when they debate the legislation.

EC 'needs to boost farm trade efforts'

THE EC has not given enough priority to trade issues and should now boost efforts to reach a consensus on farm subsidies to present in the deadlocked Uruguay Round talks next month, David Gardner reports from Brussels.

This is the view of Mr Renato Ruggiero, Italian Trade Minister, who had the job of trying to co-ordinate the EC's position at the failed Round summit in Brussels earlier this month.

Mr Ruggiero, addressing the Centre for European Policy Studies "think tank" in Brussels, called urgently for "a flexible and discreet procedure to establish the area of consensus" in the EC before the trade talks resume next month. The "real first steps" the EC had taken from its initial position on farm supports were "not perceived as such by the other side".

He pointed to three fundamental paradoxes in the attitude of a Community which had begun as a trading bloc: trade problems were given low political priority; the EC lacked "a strategic vision" in international trade; negotiating procedures were too complex for the fluidity the situation demanded. The US, with its "fast-track" mandate, was much lighter on its feet than the European Commission.

Exit destabilisation, enter post-apartheid dominance

AS South Africa edges towards political respectability, some of its business leaders are beating the regional co-operation drum with an enthusiasm threatening to drown economic realism, writes Tony Hawkins.

They are not alone in this. Within the Southern Africa Development Co-ordination Conference (SADCC), it has become fashionable to assume that post-apartheid South Africa will become its 11th member with far-reaching benefits for all participants.

Great scope exists for regional co-operation, especially in energy, transport, and tourism. The South Africans make much of their capacity to help their less-prosperous neighbours, whose efforts to reduce "dependence" on Pretoria, as part of the sanctions campaign, were notably unsuccessful. The ending of Pretoria's destabilisation activities, and, it is hoped, ceasefire pacts in Angola and Mozambique, would open the door to much-improved regional economic performance.

An obvious attraction of South African membership would be an immediate, though one-sided, boost to regional trade. Official figures for 1983-86 put intra-SADCC trade at only $950m (£494.7m) – 4.5 per cent of its total foreign trade – while its trade with South Africa was valued at $6.5bn, of which 85 per cent were imports.

These figures highlight the potential dangers of South African entry. If the plan is for a regional free trade area, favoured by many businessmen and some politicians, then South Africa, with a gross national product of some $80bn, would swamp the other 10 states whose combined income is only $25bn. Far from welcoming closer trade links with Pretoria, most of the 10 would need to restrict imports from South Africa, specifically of manufactured goods that would otherwise threaten their own industries.

South African manufacturers hold almost all the aces in regional competition – lower transport costs, a more efficient infrastructure, sophisticated financial markets, advanced technology, a dynamic private sector, and a bigger domestic market.

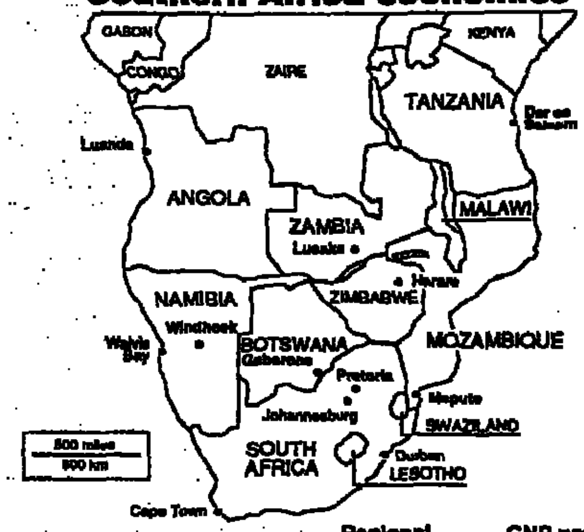
Faced with such competition, the best industrialists in Zimbabwe, Zambia or Botswana could hope for would be a loss of cost competitiveness in South Africa as a post-apartheid administration raised wages and taxes in an effort to redistribute income. Already, a third of South Africa's exports of manufactures go to sub-Saharan Africa. South African industry is bound to be an aggressive competitor on a continent seen as its natural marketplace.

This lies at the heart of Pretoria's enthusiasm for closer regional links. But the SADCC states have little to offer in return, except primary commodities – Angolan oil, Zambian copper, Malawian tea, Botswana soda ash and Zimbabwean tobacco. As political constraints fall away, the trading pattern is likely to be more lopsided.

A free trade area, which is one option, would probably condemn Pretoria's neighbours to satellite status. They would continue to rely on their primary product exports supplemented by some processing activities and basic manufactures for local consumption. But faced with relatively open competition from South Africa, the odds would be stacked against their achieving the breakthrough into industrialisation most are anxious for.

Before much longer, SADCC member states must respond to an economic threat from Pretoria that could prove more serious than the political and military destabilisation of the 1980s. Last month, member states of the East and Southern Africa Preferential Trade Area (PTA), to which most SADCC states belong, agreed on regional monetary union within five years. While such schemes head the agenda rather than the nitty-gritty of trade and investment promotion, economic co-operation will stay a pipedream.

Southern Africa economies



	GNP ($bn)	Regional income share	GNP per head ($)
Angola	5.0	4.9%	525
Botswana	1.5	1.5%	1,250
Lesotho	0.7	0.7%	410
Malawi	1.3	1.3%	160
Mozambique	1.6	1.6%	100
Namibia	1.6	1.6%	930
Swaziland	0.6	0.6%	790
Tanzania	3.8	3.7%	160
Zambia	2.2	2.1%	290
Zimbabwe	6.1	6.0%	660
South Africa	78.0	76.0%	2,300

Source: World Bank (1988)

Smith Corona boosted by court ruling on dumping

By Nancy Dunne in Washington

SMITH CORONA Corporation this week advanced another step in its decade-long campaign against alleged dumping by Japanese companies of typewriters and word processors in the US market.

The company's chairman, Mr G. Lee Thompson, hailed a preliminary ruling by the US International Trade Commission (ITC) finding injury to the domestic industry inflicted by the sale of personal word processors at "less than fair market value." Smith Corona contends that seven Japanese manufacturers are selling their products at lower prices in the US than at home and in third-country markets.

Smith Corona is the lone domestic producer of portable typewriters and word processors for the US small-user market. The company, which manufactures in New York State and Singapore, has taken on the long expensive challenge to Japanese imports through a decade of fast-changing product lines, highly motivated by the loss of TV manufacturing and other technology industries to alleged Japanese dumping.

In April 1979, Smith Corona filed its first anti-dumping petition against electric typewriters. High dumping duties, which have since been modified, were imposed the next year, and in 1983, the Commerce Department's International Trade Administration (ITA) expanded the order to include portable electronic typewriters.

Personal word processors were introduced in the US in 1986-87, and Smith Corona ultimately pursued an effort through several courts and regulatory agencies to get those included under the order. Those not included – the so-called portable word processors – will be covered by the new case ruled on last Monday.

Mrs Pat Campbell, Smith Corona's director of investor relations, said the company has responded to the dumping with its own price-cutting strategy to hold on to its more than 50 per cent market share and distributor relationships. But, in the fiscal year ending in June 1990, earnings from the previous year fell from $493m to $471m, and earnings per share dropped from $1.17 to $1.09.

The Japanese manufacturers targeted in Smith Corona's complaint include: Brother International, which argues that it is in fact a US producer; Sharpe; Nakajima All Company; Kyushu Matsushita; Canon; Silver Reed; and Panasonic.

Romanian phone project

SIEMENS of West Germany yesterday inaugurated new telephone switching equipment in Romania to increase the country's paltry 300 international phone lines to 3,000, writes Ariane Genillard in Bucharest.

This represents the first step in a plan to develop over 500,000 international phone lines in Romania by 1993. The lines will be produced by EMCOM, a joint venture company.

EMCOM will be 49 per cent owned by the public network system, a subsidiary of Siemens, and 51 per cent owned by Electromagnetica and Rompost Telecom, Romanian commercial companies.

Siemens will open up to DM70m (£24m) in long-term credits to finance Emcom's production over three years.

Venezuelan oil company to expand US refineries

By Joseph Mann in Caracas

VENEZUELA'S national oil company, PDVSA, plans to invest $2bn (£1bn) for expansion and improvements at two oil refineries it owns in the US, according to an executive at the Venezuelan company.

The investments, to be made over the next five years, will go towards meeting US environmental standards. The refineries, in Louisiana and Texas, are owned and operated by Citgo Petroleum Corp, an Oklahoma-based company wholly-owned by PDVSA.

Citgo, which recently absorbed the assets of another PDVSA subsidiary in the US, the Champlin Refining Company, of Texas, is a major petroleum refining and distribution company holding about 6 per cent of the US petrol market.

PDVSA owns shares in two other US oil refineries and has 50 per cent equity stakes in two European petroleum companies, Ruhr Oel, in Germany, and Nynas Petroleum, in Sweden. The Venezuelan concern plans to expand its overseas holdings over the next few years.

● PDVSA has announced plans to expand its oil-tanker fleet by adding 22 vessels with total capacity of 1m dwt. Much of this capacity will be added under the company's 1991-96 investment programme.

At the end of 1989, PDVSA had 19 ships with total capacity of 768,000 dwt. The company plans to refurbish some existing vessels and take others out of service.

PDVSA exports crude oil and refined petroleum products world-wide, with most of its shipments going to the US, Europe, the Caribbean and Central America.

● Venezuela will import 80,000 tonnes of powdered milk at the start of 1991 to cover domestic shortages of the product, officials say. It imported agricultural products worth around $800m in 1989, against $947m in the previous year, and hopes to expand exports of farm products, eventually to achieve a positive balance of payments in the farm sector.

INTERNATIONAL NEWS

Japanese shares scandal spreads to political arena

By Stefan Wagstyl in Tokyo

A JAPANESE stock market scandal which has touched leading banks and stockbroking companies yesterday spread into the political arena when public prosecutors started questioning a former government minister.

Mr Toshiyuki Inamura is suspected of having evaded tax on stock trading profits totalling Y2.8bn (£10.9m), including gains made from using inside information. Mr Inamura was director general of the environmental agency in 1986-87 in the government of Mr Yasuhiro Nakasone, who was himself implicated, but never charged, in the Recruit affair.

Officials of the Tokyo District Public Prosecutor's Office believe Mr Inamura profited from information supplied by Mr Mitsuhiro Kotani, a corporate raider, who has admitted manipulating stock prices.

Mr Kotani is the subject of a wide-ranging investigation for his speculative investment activities between 1986 and 1990. They are examining claims of insider trading, illegal fund-raising and tax evasion. Mr Kotani had wide contacts with politicians, banks and securities companies.

Public prosecutors yesterday mounted well-publicised raids on Mr Inamura's home and offices, taking away boxes of documents.

The scandal is already being seen as Japan's biggest since the Recruit affair which forced the resignations of about 20 government ministers, senior bureaucrats and senior businessmen. Yesterday Mr Toshiki Kaifu, the prime minister, said that if the claims concerning Mr Inamura were true they were regrettable.

The new scandal could strengthen Mr Kaifu's political position because he was chosen on the basis of his clean political reputation.

It will be difficult for the ruling Liberal Democratic Party to replace him with anyone less clean than himself for fear of provoking public anger.

The questioning of Mr Inamura is unusual because politicians are not generally investigated under tax evasion laws if they can show the suspect income was used for political purposes.

But public prosecutors believe Mr Inamura profited personally from his gains.

According to public prosecutors, Mr Inamura and Mr Kotani kept in touch through Dr Akiyuki Yamaguchi, a doctor who sometimes treated Mr Kotani and who was also an aide to Mr Inamura.

Mr Inamura traded in stocks on which Mr Kotani was mounting raids through Koshin, his investment syndicate. The targets included Kokusai Kogyo, an aerial survey company, in which Mr Kotani acquired control in 1987-88 in a controversial takeover battle. The money needed to finance the acquisition drove Mr Kotani deep into debt.

He resorted to raising illegal loans with the help of bank executives, including Mr Akinori Yamashita, then a branch manager with Sumitomo Bank. In a separate development, Mr Yamashita pleaded guilty to arranging illegal loans. His successor, Mr Fumio Nishimura, has denied responsibility.

The two men allegedly arranged loans worth Y44bn for Mr Kotani and others.

Nakasone: Never charged

Britain gives £5m to Ethiopia and Sudan

By Michael Holman and Alison Smith

ETHIOPIA and Sudan face a worse famine than the catastrophe of 1984-85 unless there is urgent international assistance, Mrs Lynda Chalker, UK minister for overseas development, warned yesterday.

Announcing a £5m aid package for the two countries, she said they would need as much help as in the 1984-85 famine when up to 1m people died in Ethiopia. But she said relief efforts now under way were "better organised, more experienced and had more information on which to base an efficient international relief operation".

An estimated 7.5m people face famine as a result of drought and civil war in both countries.

A further £500,000 will go to Mozambique, where almost of a third of the 14m population needs food aid, and £700,000 to Angola, where nearly 2m people in the south of the country urgently need help.

Mrs Chalker earlier told the British parliament that recent reports had "put beyond doubt the prospect of serious famine and widespread loss of life in Ethiopia and Sudan" next year unless action was taken by the international community.

Britain, which has so far this year given £23m in emergency aid for Ethiopia and Sudan will provide further help "as relief requirements become clearer" she said. Mrs Chalker plans to visit Ethiopia next month.

Fears of a disaster reminiscent of 1984-85 have prompted Britain's seven largest international aid agencies to co-ordinate plans for a "Crisis in Africa" appeal to be launched early in the New Year.

Apart from the Horn, Angola and Mozambique, the appeal will include Liberia, where at least half a million people affected by the country's civil war need food.

Aid workers hope that the combination of international assistance, and improved prospects for peace in Mozambique and Angola will help avert a disaster.

Famine adds to misery of war-torn Eritrea

Without further aid, widespread loss of life is inevitable, reports Jeremy Harding

HALF-a-mile behind a line of rebel trenches in southern Eritrea, a few bony cowslie in the dust beside a dry stone wall. Beyond this wall it is unsafe for the herdsman or his cattle to stray in daylight since they would be visible from Ethiopian government positions.

If there were any pasture left to speak of, there is little doubt that most livestock owners in Eritrea would risk the mortar fire to graze their cattle. But a second year without rain means safe grazing is now a technicality.

With the Eritrean People's Liberation Front poised for a final push in its 30 year war against the Ethiopian government, drought has visited a plague on both houses.

All reserve grazing has been used up and, according to rebel estimates, famine now threatens two million people in Eritrea, following total crop failure in 1989/1990.

This figure is confirmed by aid organisations. Earlier this month Oxfam (UK) warned that in Eritrea and the neighbouring province of Tigray, also controlled by rebels, up to five million people needed emergency food aid.

In both territories, says the UN Food and Agriculture Organisation, "widespread loss of life is inevitable unless further emergency relief and logistic support for its distribution are mobilised".

Drought and crop failure are familiar woes in Eritrea, where thousands of lives were lost in the famine that swept the Horn of Africa in 1984/85. They are compounded by a bitter war for independence by the Eritreans since the former Italian colony was annexed by Ethiopia in 1962.

Until 1974, when the Emperor Haile Selassie was overthrown, the Ethiopian government was backed by US military aid. Thereafter the regime in Addis Ababa received materiel and expertise from the Soviet Union but this arrangement will be under review in 1991.

The Eritreans, who rely largely on captured equipment for their war effort, are demanding a UN-supervised referendum on the fate of the territory – which Addis Ababa opposes.

Today the rebels are better equipped to deal with the drought than they were six years ago when Irish rock star Bob Geldof raised $100m in response to a similar disaster.

This is partly because the Eritrean Relief Association, the relief wing of the rebel movement, has received funds dis-

bursed in the wake of the last famine.

Previously there were less than a dozen worn-out Fiat trucks to haul grain and water around the areas controlled by the EPLF. Today the rebels have at least 300 large vehicles.

At night, when the risk of attack from Ethiopian MiG aircraft is minimal, the dry river beds and mountain passes are thick with dust as water tankers and trucks full of grain forge down from the Sudanese border to relief points camouflaged in the hills.

A water development programme, begun in 1985 and backed by a foreign aid consortium, has also improved Eritrea's ability to weather a bad year. Many more hand-dug wells exist now than during the mid-eighties and there are currently three drilling rigs prospecting and boring in rebel-held areas.

Both the increase in transport capacity and the benefits of the water programme, however, must be set against the severity of the drought and the fact that the EPLF has vastly more territory to run than it did at the time of the last major famine.

Since 1984, when the rebels were confined to a wilderness of rock in the north of the territory, the military situation has changed entirely. A successful push to the south in 1988 was followed last February by the capture of Massawa on the Red Sea coast.

This has left Ethiopia's Second Revolutionary Army confined, with no overland supply route, to the Eritrean capital Asmera and the nearby garrison town of Keren. It has also doubled the population under rebel control.

After lengthy negotiations between the EPLF, the UN World Food Programme and the Ethiopian government, an agreement was reached this week to open the port of Massawa for emergency food aid, to be distributed equally between Ethiopian and rebel areas. The first cargo is due to arrive from Djibouti under a UN flag in early January.

Meanwhile the EPLF fighters dug in less than 50 kilometres from Asmera believe they will take the city within months. Disabling the airport with artillery fire from the west is the most popular scenario. After that, many argue, Asmera would fall as a matter of course.

The other option – a major offensive – might cause many deaths in the city and the surrounding government enclave, whose population has risen to 1.5 million this year because of war and drought.

Coming in the middle of a food emergency, such a move could also alienate the international community, which the EPLF is at last courting with some success in its bid for recognition.

For the moment the threat of famine remains uppermost. Livestock are dying and people are on the move. Ethiopian air raids continue to target civilians in rebel-held areas but drastic shortages of water and grazing are now the main cause of displacement.

Indeed, while Asmera remains unchallenged, lack of rain looks certain to take a heavier toll in Eritrea than the flurries of demolition and and cluster bombs which fall with grim monotony on this unhappy land.

Mengistu's agricultural reforms start to pay off

By John McGrath

IT IS not all bad news from Ethiopia. Although harvests have failed in drought-stricken Eritrea, and in much of neighbouring Tigray and Welo, farmers in Hararge are showing that a combination of policy reforms, external aid and comparative peace can bring big improvements.

Last March President Mengistu Haile Mariam dropped Marxism, lifted price and state marketing controls, and allowed peasant farmers to vote on dissolving many co-operatives – which had been collectively farming some of the country's best land.

The reforms stopped short of allowing individual ownership of land – which remains the property of the state. But individuals are allowed rights to use the land and assets on it, such as fruit trees. These rights can be passed on to their children.

Farmers no longer have to sell quotas of their crops to the state-owned Agriculture Marketing Corporation at low fixed prices, and are free to get a better price on the open market.

The result has been greater motivation, a resurgence of individual enterprise, the revival of traditional forms of co-operative working, better use of land, and cultivation on new land.

Near Erer Gada in eastern Hararge, 30 farmers used to collectively tend an orange grove of 900 trees.

When they dissolved the co-operative they divided the trees up equally among themselves.

Umar, 45, has dug new irrigation channels around his three trees and interplanted them with lines of sweet potato. "Look at these trees. People are looking after them now. When they were commonly owned and the oranges were ready, everyone rushed to eat them before their neighbour. Now even if I lose one fruit, I will pursue the person who has stolen it."

While the farmers resented the "co-operation" foisted on them by the government, there has been a revival of a traditional form of co-operation known as *guzza*. A farmer who needs occasional help, especially for ploughing or harvesting, will request it from his friends and neighbours in exchange for a large meal, and the understanding that he will do the same for them if asked.

Umar says: "We will help each other, but only if someone is in trouble and needs it. I live here and it is the people here who will bury me some day, so I have to share what I have with them or else I would be alone."

Using *guzza*, Mohammed Ahmed and his four neighbours have created an oasis in the parched land near Babile, which used to be collectively farmed by 30 people. A spring is nearby. Now Mohammed has the incentive to use its waters, he has dug an elaborate network of irrigation channels and created an extensive system of terraces and micro-basins.

Girma Tilahun, local project officer for Oxfam, the British aid agency, says: "There are five farmers in this area now and they are doing more and growing more than 30 used to."

At another Oxfam project which supplies tree seedlings to farmers, the number of requests for seedlings to be planted in the main rainy season has more than doubled in the past year, from 23,000 to nearly 50,000.

Officials at the United Nations Food and Agriculture Organisation think that the country's cultivated area could have increased by 5 per cent since March as a result of the agricultural reforms.

In an area like Hararge, struck by drought for the second successive year, 5 per cent extra cultivation, coupled with better use of existing land, could mean the difference between going hungry and just getting by for another year for many farmers and their families. *John McGrath works for Oxfam*

Woman set to head UN refugee organisation

MRS SADAKO Ogata, a Japanese professor of foreign relations with experience in the UN Children's Fund, has been nominated as the next UN High Commissioner for Refugees, diplomats said yesterday, AP reports from New York.

His choice is expected to be confirmed by the General Assembly by acclamation tomorrow, they said.

Mrs Ogata, 63, would be responsible for protecting 15m refugees worldwide and end a long and controversial search for a successor to Mr Thorvald Stoltenberg, who resigned to become deputy prime minister of Norway.

Mr Virendra Dayal, chosen for the job by Mr Javier Pérez de Cuéllar, the UN secretary general, withdrew from consideration last month after meeting opposition from the US and other western nations.

Mr Dayal charged that his opponents wanted a westerner to fill the post, and implied they were racists who wanted the commissioner to "carry the burden of the white man".

At the time, western diplomats said they objected to Mr Dayal because they had not been consulted about the appointment.

Mrs Ogata would be the first woman to hold the post, which traditionally has been held by western men, many of them high-profile politicians and fund-raisers.

She is the dean of the faculty of foreign studies at Sophia University in Tokyo and professor at the Institute of International Relations for Advanced Studies on Peace and Development in Asia at the university.

She became Japan's first woman minister to the United Nations in 1976 and also worked with the UN children's fund, UNICEF.

If nominated and approved, she would be the fourth woman in the United Nations system holding the rank of undersecretary-general and would be the second Japanese with that rank, joining Yasushi Akasi, undersecretary-general for disarmament affairs.

Reuter adds: Mr Pérez de Cuéllar has repeatedly asked Burma's military government to release opposition leader Aung San Suu Kyi from house arrest but has so far received no positive response, a UN spokesman said yesterday.

Seven months after winning an election last May, leaders of the opposition National League for Democracy are still in jail or under house arrest.

Assault on NZ welfare state

By Dai Hayward in Wellington

NEW ZEALAND'S new National government last night began dismantling the extensive 52-year-old welfare state with wide-ranging cuts in unemployment and family benefits, medical and sickness payments and moves towards means-tested, user-paying medical and educational services.

An economic package, designed to reduce government spending by NZ$601m (£184m) this year and NZ$2.3bn next year, also brought radical changes to the labour market, ending half a century of compulsory unionism and scrapping national wage awards in favour of factory or local wage agreements.

Removal of $600m consumer spending at a time of recession has drawn concern from manufacturers and retailers while social workers and those concerned with the less well-off described the moves, singling out unemployed and age beneficiaries as, "obscene, savage and vicious".

The family benefit of NZ$6 a week for each child will be scrapped. Basic unemployment benefits are reduced while other supplementary benefits for unemployed, single parents and sickness beneficiaries will be subjected to means tests.

Those made redundant will now have to wait 26 weeks before being eligible for the dole.

A single man's unemployment benefit is cut by NZ$27 to NZ$108. The age for unemployed youth rates, who qualify for only NZ$100 a week, is raised to 25 years.

A promised increase to elderly beneficiaries next April has been scrapped, meaning they will receive no increase until 1992.

There are also increases in the cost of visits to the doctor and chemists' prescriptions. These have risen from NZ$5 to NZ$15.

Cuts in education spending include the cancelling of a new law school at Waikato University, which was to specialise in Maori and ethnic law. Defence spending was cut by NZ$20m. This was described by Mr David Caygill, former Labour Party finance minister, as "a token" gesture. He argued that much more could have been cut from defence to preserve some of the welfare benefits.

The government has also signed a new contract with Mr Don Brash, Reserve Bank governor, extending the date for the nil to 2 per cent inflation target to three years. This enabled the bank to immediately ease its tight monetary policy and two banks followed by dropping mortgage interest rates by 1 per cent and commercial rates by half a per cent. The banks were National, a subsidiary of Lloyds, and ANZ.

The prime minister, Mr Jim Bolger, says the package is "strong medicine to treat a sick economy" and is designed to produce economic growth, reduce interest rates and create jobs.

Mrs Ruth Richardson, the finance minister, said many people refused to take low-paid jobs because they received more in unemployment benefits. The government had to change the welfare system to discourage this.

Many commentators pointed out that while the cuts come into force over the next few weeks it will be at least a year before the reform of the labour market can produce new jobs.

Welfare payments had ballooned and had to be cut back, said Miss Richardson. In 1984 they cost NZ$650m; today welfare benefits took over NZ$5bn of government spending. If no action had been taken the government deficit would be NZ$5bn by 1993.

Indian police making an arrest after a security force raid on a gun-making plant in the town of Khurja, in the northern state of Uttar Pradesh, where more than 250 people have been killed in Hindu-Moslem violence in two weeks over the issue of the building of the Ahyodha temple

Indian industry shows pessimism over profits

By David Housego in New Delhi

INDIAN industry, which has enjoyed two years of record profits, has turned deeply pessimistic about short-term prospects for sales and earnings.

The outlook is "very bleak, very depressing", says Mr Anil Nanda, managing director of Escorts, the motorcycle and vehicle group. "Profit margins are going to be under tremendous strain."

The sharp downward revision of forecasts follows unexpectedly large increases announced earlier this week in customs duties and in indirect taxes imposed by the government in its effort to curb imports and reduce the fiscal deficit. Industry expects further increase in corporate taxes and excise duties to be announced shortly.

The measures, which include a 20 per cent across- the-board increase in the surcharge on customs duties, follow a tightening of import restraints over the last six months. The Bombay stock market index, one of the few in the world that continued to climb at the start of the Gulf crisis, plunged 10 per cent this week in the two days after Mr Chandra Shekhar, the prime minister, announced his package of austerity measures.

Government economists now expect that the 12.4 per cent rise in industrial growth in the first five months of the year (April-September) will be transformed into flat or negative growth for the remainder of the year and beyond.

Industry is telling the government that the tax increases will further push up prices and reduce economic growth. "They will fuel inflation and push the economy into recession," says Mr Vivek Bharat Ram, managing director of DCM Toyota, the vehicle manufacturer. The new customs and excise duties announced this week will raise Rs1.3bn (£37m) in additional revenue in a full year of the Rs3bn that the government is now seeking.

The new measures come in the context of a dramatic worsening of India's macroeconomic indicators – with an unexpected large growth in monetary expansion, foreign exchange reserves falling to below three weeks of imports, and inflation on official figures at more than 12 per cent.

Britain 'was braced' for Iraqi aggression

By Victor Mallet, Middle East Correspondent

MR MICHAEL Weston, the British ambassador to Kuwait, explained yesterday how Britain – like the US – had been braced in July for some kind of Iraqi military action but not for the full-scale invasion of August 2.

He told a news conference in London that his embassy had tried in the two weeks before the invasion to revitalise its system of local "wardens" to keep in touch with the British community in Kuwait.

"We thought that some sort of military action was possible," he said.

Mr Weston recounted how he and Mr Larry Banks, the consul, survived for more than four months holed up in the embassy compound in Kuwait City. They returned to London following the release of western hostages by President Saddam Hussein.

Shortly before they left the embassy, Mr Weston said, he was telephoned by an Iraqi resistance leader, who described himself only as Abu Nasser.

The man thanked the diplomats for staying on in Kuwait and applauded the British government's policy of firmly opposing the Iraqi invasion of Kuwait. Mr Weston said it did not appear that Iraq, whose disciplined assault forces had been replaced by disillusioned youngsters, was fortifying Kuwait City itself for a determined defence.

Mr Douglas Hogg, Minister of State at the Foreign Office, insisted again yesterday that President Saddam's forces had to withdraw from all of Kuwait in compliance with UN resolutions.

"If he does so only partially then he's at risk of being driven out by force," the British minister said.

■ Iraq defiantly warned US and allied troops yesterday that they would end up as heaps of corpses if war breaks out in the Gulf, Reuter reports from Baghdad.

"When the great confrontation begins ... the villains will see how the land burns beneath their feet and how their massed ranks turn into heaps of rotten corpses on which vultures and wild animals feed," said al-Thawra, the newspaper of President Saddam's Arab Socialist Baath Party.

Saudis say oil windfall being spent

By Michael Field in London and Mark Nicholson in Riyadh

SAUDI Arabia does not consider its extra oil revenues since the start of the Gulf crisis to be windfall profits, according to the Saudi Finance Ministry.

Although the Kingdom's oil exports have risen by nearly half in volume terms since the Iraqi invasion of Kuwait on August 2, a senior official at the Ministry has said that the effective rise in the value of those exports is much less than generally thought.

He points out that prices for Middle Eastern crudes are now nearer $20 (£10.40) a barrel than the $40 they touched in early October, and that Saudi Arabia sells its crude on long-term contracts which involve prices well below the speculative peaks realised by batches of crude traded on the open market.

Western diplomats estimate that Saudi Arabia has reaped a bonus of between $13bn and $14bn from higher oil prices and output since the crisis began, but Saudi officials speak of extra spending of nearly $20bn.

This was spent on the transport and accommodation of the multinational force, compensation for the losses incurred by Egypt, Turkey and other countries in implementing the embargo on Iraq, and the accommodation costs of Kuwaiti refugees in Saudi Arabia. It also included additional subsidy payments to developing countries.

Transport and accommodation payments to the multinational force include the costs of shipping the troops and their equipment, housing those soldiers who are not in the desert, providing them with food and a certain amount of transport and giving them fuel. The Saudi oil production figure, which now totals more than 8m barrels a day, includes some 800,000 b/d of domestic consumption and 300,000 b/d for military use.

In addition to the direct costs of the crisis to Saudi Arabia, western diplomats say the Saudi government is also concerned about the indirect and longer-term costs associated with accelerated investment in the oil industry and more defence spending.

"The Saudis perhaps feel committed to spending their extra money somewhere down the road and thus do not feel themselves to be better off," said one diplomat in Riyadh.

If the Ministry's figure for additional spending is accurate, these calculations suggest that the Saudi budget deficit, originally projected at $8bn for this year, will have increased rather than diminished as a result of the crisis.

Militias wary as Lebanese cabinet quits

THE cabinet of Lebanese prime minister, Mr Salim Hoss, resigned yesterday making way for a government of national reconciliation, AP reports from Beirut.

However, Lebanon's two strongest militias, Samir Geagea's Christian Lebanese Forces and Walid Jumblatt's Druse Progressive Socialist Party, warned of reservations about the change.

President Elias Hrawi, a Maronite Catholic, asked Mr Hoss, a Sunni Moslem, to stay on as caretaker premier.

The new cabinet will seek to disband the private armies that have fought Lebanon's civil war since 1975.

Philippine army plotters given long jail sentences

A PHILIPPINE military court yesterday delivered its strongest warning yet to army rebels plotting to overthrow President Corazon Aquino, sentencing 81 officers and men to jail terms of up to 32 years, Reuter reports from Manila.

They were jailed for their part in a 1987 insurrection, during which the presidential palace was attacked. The rebels captured the armed forces headquarters in Manila, but loyalist troops crushed the uprising after fifty-three people died.

The verdict ended the country's biggest mutiny trial and coincided with renewed fears of a fresh coup attempt as the country slipped deeper into economic crisis.

Mr Ruben Torres, Labour Secretary, warned that unemployment could rise sharply as the impact of the Gulf crisis began to bite harder, and the military said reduced fuel allocations for the army could cut operational effectiveness by half.

Opposition politicians have stepped up calls on Mrs Aquino, swept to power in a 1986 popular revolt, to resign, saying she does not have the ability to lead the country through its present difficulties.

Most of those sentenced by the military court at the army's Fort Bonifacio headquarters yesterday received jail terms of between 12 and 20 years. The sentences appeared to be part of a deliberately tougher approach by military authorities to the series of army revolts that have plagued Aquino's government since she came to power after the late dictator Ferdinand Marcos was ousted in 1986.

Mrs Aquino has survived six coup attempts. The first group of rebels was punished by being forced to do 20 press-ups.

Army Chief Maj-Gen Guillermo Flores this month sacked 224 soldiers linked to a failed revolt last October on Mindanao, the biggest group to be purged by the military.

The tougher action appears intended to appease critics who say the military is lax in imposing discipline. The military has failed to recapture the leader of the 1987 coup, Gregorio Honasan.

The court acquitted 20 soldiers, including three colonels, after a closed-door deliberation that lasted more than 14 hours. A total of 117 soldiers stood trial for mutiny and murder over the revolt on August 28, 1987. Prosecution lawyers said verdicts on 16 other defendants were still pending.

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INTEREST RATE OUTLOOK

US financial markets have welcomed Tuesday's cut in the US discount rate. **Michael Prowse** reports from Washington

Fed fastens on recession as the chief economic peril

THE first cut in the US discount rate for four years provides an unequivocal signal that the Federal Reserve is now more concerned about recession than inflation. It also indicates that the Fed is relatively indifferent to the external value of the dollar, which has depreciated sharply in recent months.

The move, which came earlier than expected, was applauded in financial markets. Mr Bob Giordano, chief economist at Goldman Sachs, said it suggested a "transformed mental attitude on the part of the Fed", which until recently was still concerned about inflationary pressures.

The Fed, he suggested, would cut interest rates as often and as far as necessary to stabilise the economy.

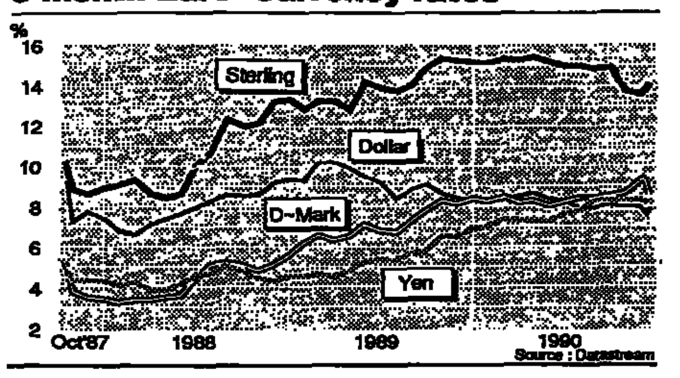
The discount rate is the rate the Fed charges for short-term loans to commercial banks. Since few banks borrow at the "discount window", the half point cut to 6½ per cent is in itself is of limited practical importance. However, cuts in the discount rate are normally followed by proportionate cuts in the federal funds rate (the rate banks charge each other for loans). Yesterday, the Fed nudged the fed funds rate down towards 7 per cent. A further cut towards 6¾ per cent is likely in coming weeks.

Moves in the discount rate, however, have tremendous symbolic significance. Tuesday's cut provides the clearest possible signal that the Fed wants easier credit conditions throughout the economy. Discount rate changes invariably hit the front pages of US newspapers while changes in the federal funds rate tend to be buried on the business pages.

The man and woman in the street are thus now aware that the Fed wants to see cheaper loans.

But how quickly they will actually benefit from the Fed's move remains to be seen. Between July and this week, the Fed reduced the federal funds rate in several steps from 8 per cent to 7¼ per cent.

3 month Euro-Currency rates



In the past that would have caused a cut in prime lending rates followed by cheaper variable rate mortgages and car loans. But the beleaguered big money centre banks have not cut prime rates since January.

On Tuesday evening, Norwest Bank, a Minneapolis bank, cut its prime lending rate a ¼ point to 9.75 per cent to join a few other small regional banks which cut prime rates earlier this month. But Mr Richard Berner, economist at Salomon Brothers, warns that the big banks will not be in a hurry to drop their prime rates below 10 per cent. The banks are anxious to rebuild their margins by charging bigger spreads on commercial loans.

Some Fed governors, reportedly concerned about inflation, have been less keen on interest rate cuts than others. Such disagreements appear to have been buried. The Fed governors voted unanimously for the discount rate cut, citing "weakness in the economy, constraints on credit, and slow growth of the monetary aggregates". The cut was also needed to realign the discount rate with market interest rates.

US MONETARY AGGREGATES
($ billion, seasonally adjusted)

	M1	M2	M3
Levels			
September	822.1	3,319.8	4,096.1
October	820.0	3,321.0	4,092.7
November	822.6	3,318.4	4,088.0
Weekly change			
November 26	2.0	5.7	7.6
December 3	-6.6	-12.9	-18.0
December 10	2.4	9.3	10.5
% change*			
Aug-Nov 1990	3.3	1.6	-0.5
May-Nov 1990	4.3	2.7	1.0
Q4 1989-Nov 1990	4.0	3.7	1.4

* Seasonally adjusted annual rate. Source: J P Morgan

But for Tuesday's move, there was a risk of the fed funds rate moving below the discount rate, which usually sets a floor to borrowing costs.

The Fed was evidently cheered by the November consumer price figures which showed a rise of only 0.3 per cent, less than half the 0.7 per cent average rise in the preceding three months. The improvement reflected sharply reduced energy price inflation. The "core" consumer price index – the index excluding energy and food – has been rising by only 0.3 per cent a month since the late summer.

The Fed is also reacting to the sharpness of the slowdown in monetary growth (see table). The seasonally adjusted annual rates of growth of the main measures of the money supply have declined steadily since the fourth quarter of 1989. Between September and November of this year, the main aggregates did not grow at all; M3, the broadest measure, actually fell slightly.

Economic indicators are signalling a sharp contraction of gross national product this quarter, probably at an annual rate of 4 per cent.

J.P.Morgan, the Wall Street bank, points out that weekly data on unemployment insurance claims suggest further sharp falls in employment and production in December. It is projecting a peak to trough decline in GNP of about 2½ per cent, which suggests a recession of average post-war severity.

The Fed is relaxing in the hope that it can limit the depth of the downturn, which many fear will be exacerbated by weaknesses in the banking system. It is acting in the knowledge that there is little the White House or Congress can do to help. Tax cuts of any magnitude remain out of the question given a headline federal budget deficit that is certain to exceed $300bn next year.

London looks with envy across Atlantic

By **Peter Norman**, Economics Correspondent

BRITISH businessmen were yesterday looking across the Atlantic with envy following the US Federal Reserve's decision to cut its discount rate to 6.5 per cent.

With Britain now a member of the European Monetary System's exchange rate mechanism, there was no question of the Bank of England emulating the US move and pushing bank base rates down from their current level of 14 per cent.

Britain's monetary authorities yesterday made clear that there would be no cut while the pound was weak. This was in spite of increasingly clear signs that Britain is in a deepening recession and a UK newspaper report yesterday which suggested that the Treasury was ready to cut rates in line with falling inflation even if sterling were to remain in the bottom half of its ERM bands.

"We are not in the business of cutting rates unless and until it is clear it is the right thing to do," a Treasury official said. This, he added, had been made clear by Mr Norman Lamont, the chancellor, when he told parliament a week ago that "there can be no question of a reduction in interest rates that is not fully justified by our position in the ERM".

Bank officials said the "bottom line" for any rate cut would be sterling's credibility in the ERM band with financial markets.

They claimed this was underlined by Mr Robin Leigh-Pemberton, Bank governor, on Sunday in a television interview.

"The Bank was working "to convince the markets that we really mean business about our place in the band in the exchange rate mechanism," Mr Leigh-Pemberton had said. "And it is because our position in the band is rather lower than I would like to see it that it is not possible immediately to respond, say, to better inflation figures by lowering rates."

Mr Leigh-Pemberton was talking shortly after last Friday's publication of Britain's inflation figures for November, which showed the UK's annual inflation rate falling to 9.7 per cent from 10.9 per cent in October.

The Federal Reserve's action and the newspaper article pushed sterling below last Friday's levels, making UK interest rate cuts still less likely in the short term.

The complexity of the decision facing the authorities was summarised by Mr Leigh-Pemberton in his television interview.

"The important thing is that the market should believe that we will lower interest rates – that we will relax monetary policy – when the economy, our monetary position, the financial position really justifies it. And that it will not be done in response to political pressure," he said.

Let-off for Bush on capital gains

By **Lionel Barber** in Washington

JUST as the Federal Reserve announced it was cutting the discount rate, President Bush gave a broad hint that he was no longer willing to push for a capital gains tax cut in his forthcoming budget.

The threatened retreat on capital gains underlines how much the administration has come to rely on the Fed to stimulate the flagging US economy through lower interest rates.

Since his 1988 presidential campaign, Mr Bush has pursued a lower rate on capital gains with quixotic ambition.

This led to a bruising defeat in the recent five-year $500bn budget deficit reduction agreement with Congress, but Mr Bush continued to insist a cut would promote economic growth – partly as a sop to disaffected conservatives.

Some of his advisers – notably Mr Nicholas Brady, Treasury secretary – were openly sceptical; and on Tuesday afternoon the president appeared to back off. "We're faced with this practical problem as to what we can do, not just on capital gains but on other stimulants that cost money," he said.

BANK of Montreal led the way among Canadian banks yesterday by dropping its prime lending rate a quarter percentage point to 12.75 per cent, Bernard Simon writes in Toronto. The move was partly in response to the US discount rate's fall, but also reflected a gradual easing in Canadian interest rates as the recession takes hold.

The constraint on fiscal stimulants, as Mr Bush seems now to realise, is largely due to the terms of the deficit reduction package crafted by Mr Richard Darman, White House budget director. The agreement requires that any lost revenue must be made up through spending cuts or offsetting tax increases.

Mr Bush is adamant he is not prepared to raise taxes further, partly because of opposition within his own Republican party but, more seriously, because of the softness of the economy. The Democrat majority in Congress is equally opposed to further cuts in entitlements or domestic programmes beyond those contemplated under the budget agreement.

Given these constraints, Mr Darman has argued in recent White House meetings that it will be difficult to find the revenue to pay for capital gains or other tax cuts in the upcoming budget. Little wonder, then, that the White House exuded a sense of relief at the Fed's cut in the discount rate.

The last hope for conservatives is that the White House pushes for a new way to calculate or "score" capital gains under the budget agreement. The idea is to counter Democrat arguments that the wealthiest taxpayers would be the prime beneficiaries of a cut by showing that higher income brackets would indeed pay more taxes.

Mr Bush may now be able to ward off charges that nothing is being done to ward off recession, but the question is whether the Fed has left it too late.

Nicholas Brady: openly sceptical

Unity costs could force Bundesbank to push up rates

By **Andrew Fisher** in Frankfurt

WHEN Germans choose a subject for debate they tend to grapple with it on for some time. Thus the arguments about the cost of unity have ranged across the whole political, economic and financial spectrum. Numerous speeches have been made, columns of newspaper space filled, and many hours of broadcasting time devoted to the subject.

It is hardly surprising, therefore, that the Bundesbank has returned to the theme in its latest monthly report.

The central bank has hammered away at the need to ensure that state borrowing to finance unification does not upset its safety-first monetary policies. It warns sternly in the report that it will consider raising interest rates again if public sector debt issuance is not kept within sensible bounds.

However, it manages to temper its concern over the run-away cost of unification with the recognition that spending in the country's five new states is assurance for the future.

But having accepted the necessity of high sums of money needed to haul east Germany out of the ruins of a centrally planned Stalinist regime and into the free market, the central bank then wags its finger.

The expansionary effects of rapidly rising state budgets in the economic and monetary spheres have to be taken into account, it warns.

Much of the budgetary help for east Germany has the effect, at a time of falling production and employment in the region, of stabilising incomes there and increasing demand for west German goods. The Bundesbank is concerned to see that rising public sector indebtedness does not work against controlled credit and money supply growth.

Now that the Bundesbank is responsible for the whole of Germany, its reports cover the highly differing economic trends in east and west.

While west Germany is enjoying what even the Bundesbank calls "a boom-like acceleration", east Germany is very much on the skids as its outmoded industry continues to be exposed to outside competition and the subsidies of the old regime are removed.

West Germany's economy has benefited considerably from demand in the east, enabling companies to offset some problems surfacing in their main export markets. In the third quarter, west Germany's gross national product grew at an annualised and seasonally adjusted rate of more than 8 per cent over the second quarter and by 5.5 per cent against the third period in 1989.

While imports are rising in response to increased internal demand, exports are slowing. Not only are some west German companies – especially in engineering – having to quote longer delivery times as they work at stretched capacity, but foreign manufacturers have become more competitive, not least because of the high D-Mark. The result is pleasing to the Bundesbank, conscious that Germany's high surpluses have been a source of embarrassment in recent years.

US estimate of economic growth lowered to 1.4%

THE US economy grew at an annual rate of only 1.4 per cent in the third quarter, the Commerce Department reported yesterday, reports Michael Prowse.

This was a sharp revision from earlier estimates of a 1.7 per cent growth rate.

Figures for housing starts released yesterday showed a 9 per cent increase in November to 1.12m. The rise, which reflected a recovery of apartment building starts, surprised analysts who had been forecasting a further fall after weak figures for the past 10 months.

The largest downward revisions in the GNP numbers were in personal consumption spending and net exports. The biggest upward revision was in federal government purchases. Recent retail sales figures suggest personal consumption will be significantly weaker in the fourth quarter.

Last month's trade figures were also unexpectedly poor. GNP is expected to fall sharply this quarter.

The 9 per cent rise in housing starts compensated for a sharp decline in October and does not suggest an imminent revival of real estate markets, which remain exceptionally weak in many parts of the country. Housing starts last month were still 16 per cent below the level of November 1989.

Tokyo rules out early rates cut

By **Stefan Wagstyl** in Tokyo

MR Yasushi Mieno, the governor of the Bank of Japan, yesterday dashed hopes of an early cut in Japanese interest rates.

The time was not yet ripe for Japan to reduce rates despite the US Federal Reserve's decision to cut its discount rate to 6.5 per cent, he indicated.

Mr Mieno's comments, made in an interview with a Japanese news agency, hit prices in the bond market and took the shine off a strong rally in equities.

The Nikkei index closed up 452.76 points at 24,876.78; earlier it had shown a rise of over 550 points and had gone through the 25,000 level for the first time in seven weeks.

Mr Mieno said the central bank's grip on the money supply was not too tight. Economic growth remained strong despite the emergence of some concern among businessmen about the impact of the Gulf crisis on confidence.

Commenting on an increase in business failures in Japan, Mr Mieno said it was natural that tighter credit had had an effect on companies which had indulged in *zaitech*-style (financial engineering) investment in securities and land. But companies with sound management would not go bankrupt.

Mr Mieno welcomed a recent decline in the growth of the money supply, which grew by 10.0 per cent in November compared with the same month last year, against an 11.8 per cent increase posted in October. But the slowdown would not prompt a change in the central bank's policy since the rate was still too high. Mr Mieno's remarks followed a strong rally in bond prices over recent weeks.

Investors have been buying bonds in the belief that the central bank will soon ease interest rates across the board. But in the short-term markets, the bank has kept interest rates high, refusing to be led by the sentiments of investors in bond markets. Yields on short-term deposits remain well above 8 per cent.

The central bank continues to be concerned about a resurgence of inflation, caused primarily by labour shortages.

AMERICAN NEWS

Drug trafficker's surrender will test Colombian resolve

By **Robert Graham**

THE SURRENDER of a leading member of a Colombian drug cartel is expected to be a test case for the government's less confrontational approach to dealing with the country's huge illicit drugs business.

Mr Fabio Ochoa, 33, a member of one of the two principal families in the Medellín cocaine cartel, handed himself over to a justice official on Tuesday. His surrender came a day after President César Gaviria further softened terms to encourage drug traffickers to turn themselves in.

Last September President Gaviria tried to draw a distinction between those who were simply trafficking in drugs and those resorting to terror tactics to undermine the institutions of state. However, only four low-level traffickers accepted the offer of less punitive treatment.

The latest offer was reportedly prompted by indications that up to 300 traffickers would surrender if the terms were eased further. This week's amendments stipulated that the traffickers must first surrender and confess.

But in return the Colombian government undertook to cancel extradition proceedings and to cut jail terms by up to half. Over the past four years most terrorist actions carried out by the drug barons have been designed to force the government to abandon extradition to the US.

The cartels had pressed for the confession stipulation to be dropped. Hence Mr Ochoa's quick surrender came as something of a surprise.

He is wanted for extradition to the US on charges of drug trafficking and plotting the murder of a Drug Enforcement Administration informer. But there are no charges outstanding against him in Colombia.

Despite these charges, the Ochoa family has been careful to distance itself from the violent activities of the principal figure in the Medellín cartel, Mr Pablo Escobar. As a result the business interests of the Ochoa's have been less persecuted by the authorities.

Argentine tax chief quits as revenues fall sharply

By **John Barham** in Buenos Aires

ARGENTINA'S chief tax official, Mr Raúl Cuello, resigned on Tuesday afternoon as dwindling tax revenues threaten the government's anti-inflation strategy.

The departure of a top tax official would hardly be noted in most countries, but Argentina's tax system has become the bottleneck of President Carlos Menem's economic policies, which rely on tight fiscal and monetary policies.

Argentina has promised the International Monetary Fund to run a $328m (£169.9m) monthly budget surplus. However, unofficial estimates put the surplus at only $60m, after deducting privatisation receipts. In October the government raised $481.7m in taxes, a third less than a year earlier. Diminishing revenues are forcing the central bank to print more money, reducing its ability to mop up dollars.

The government plans emergency taxes and gimmicks to boost revenues and balance its books as heavy end-of-year expenses fall due. But getting rid of Mr Cuello will do little to improve the fundamental problem of massive tax evasion – in Argentina only one family in 25 pays income tax.

Army mutineers face call for death penalty

AN Argentine military prosecutor has demanded the death penalty for Colonel Mohamed Alí Seineldín and four other leaders of a bloody mutiny which occurred on December 3, writes John Barham.

Prosecutor General Carlos Domínguez also demanded lengthy jail sentences for soldiers and civilians who took part in the rebellion, which left 13 dead.

Col Seineldín was under arrest at an army base 1,000 miles from Buenos Aires at the time of the uprising, but later assumed personal responsibility for the mutiny.

US invasion brings Panama slim dividends

The intervention is now seen as an example of bungled foreign policy, writes **Tim Coone**

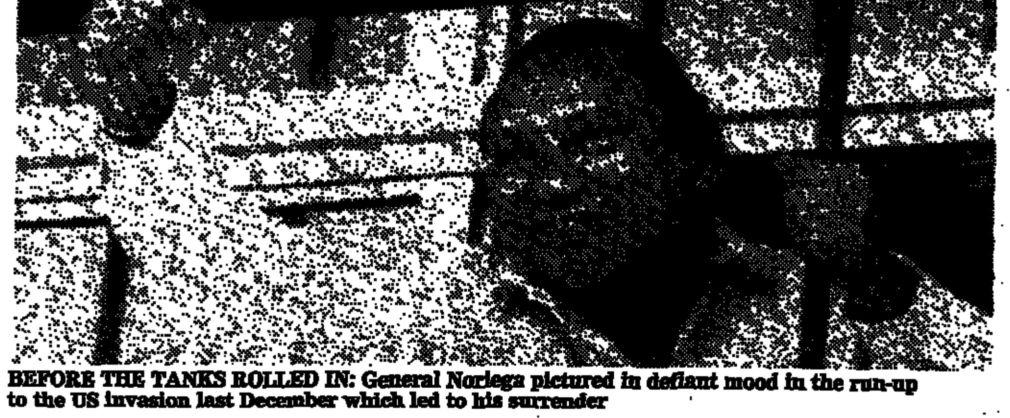
ONE year ago today, as everyone was settling down for a Christmas season of peace and goodwill in the new post-Cold War climate, images of Operation "Just Cause" flashed across TV screens around the world.

Twenty-five thousand US invasion troops had stormed into Panama to depose its military strongman General Manuel Antonio Noriega.

Resistance to the invasion was brief and half-hearted. A broad sector of Panamanian society openly supported the military intervention, despite its technical violation of the 1979 Carter-Torrijos Treaty. Mr Guillermo Endara, who had been cheated of his victory in the presidential elections the previous May by Gen Noriega's supporters, was sworn into office flanked by US army and embassy officials.

But what was widely seen one year ago as rough but benign justice to deal with a stubborn despot, is increasingly viewed in Panama today as a lost opportunity. Widespread expectations of a rapid economic recovery have not been fulfilled.

For the thousands of families made homeless by the invasion, in the devasted area of Chorillo around Gen Noriega's former headquarters in downtown Panama, new homes are only just now being built. Unemployment has dropped slightly, due to a surge in construction; but the economy is not prospering despite the outward appearance of renewed prosperity in the bustle of Panama's commercial and business centre.



BEFORE THE TANKS ROLLED IN: General Noriega pictured in defiant mood in the run-up to the US invasion last December which led to his surrender

The overall 6 per cent growth rate widely expected for 1990 is a lacklustre achievement when compared with the 30 per cent fall in GDP during the previous two years of Gen Noriega's confrontation with the US. The sharp upturn in the construction sector has not been paralleled in the rest of the economy. The new activity is mostly being exerted on the completion of abandoned projects.

"There is little new investment," according to the local chief executive of one big foreign bank in Panama. He said that restocking after the extensive post-invasion looting of Panama's commercial centre was the main factor behind a 12 per cent growth rate in the only other important economic sector to show better-than-average performance this year. "It is not a basis for sustained recovery," he said.

Demonstrations organised by the public sector trade unions against lay-offs and new legislation directed at dismissing union activists, have provoked bloodshed in recent clashes with the new security forces.

A rebellion by a police officer, ex-Colonel Eduardo Herrera, coincided with the latest union protests at the beginning of this month and had to be put down by the deployment of US troops. President Endara accused the leaders of plotting a military coup against him. The rebellion has fuelled doubts over the loyalty of the security forces, created from the remnants of the old Noriega-led Panama Defence Forces.

A surging crime wave has led to a doubling of the prison population in 12 months according to recent figures published by the penitentiary system. Armed robberies of banks have jumped to 23 this year in comparison with only 10 during the previous 20 years, according to one foreign banker with almost a decade of experience in Panama.

Foreign visitors are being warned by locals to lock car doors when stopping at traffic lights at night on the road to the capital from the airport. Assaults have become commonplace. A taxi driver who experienced one such incident earlier this year and had his vehicle sprayed with bullets said: "The problem is that the police are only armed with pistols. The robbers have automatic rifles."

This week, President Endara said that he hoped US troops would not be called upon again to restore law and order, but doubts persist. US armoured vehicles have beefed up security around the prison where ex-Col Herrera is held.

Meanwhile, US economic aid is being made conditional on advances being made in signing a Mutual Legal Assistance Treaty. Only $120m (£62.5m) has been disbursed out of a package of $420m in economic aid approved by the US Congress several months after the invasion.

The treaty would systematise regular US investigations into drug-money laundering through the Panamanian offshore finance and banking centre. The US also wants to extend this to US tax-evasion investigations.

Ironically, Gen Noriega who after his surrender was whisked to Miami to face charges on drugs money laundering, may yet go free. Legal squabbles over the release of Gen Noriega's funds to finance his defence, the leaking of confidential telephone conversations with his attorneys which were taped by the prison authorities, and difficulties by his defence lawyers in obtaining what they regard as key evidence from his former CIA paymasters, have led to a growing belief in the US that a mistrial may be declared.

In retrospect, what was portrayed last Christmas as a noble cause in the defence of democracy and vital US interests in Panama, has emerged as a picture of bungled US foreign policy. US troops had to oust a one-time US ally, after economic sanctions had failed, and the combined cost paid by the Panamanian people for their liberation is increasingly viewed in Panama City as unacceptable.

It is food for thought this Christmas, as almost half a million US troops stand poised on the border of Kuwait, ready to depose another Third World autocrat who has fallen out of favour with Washington.

UK urges Brussels to drop prosecution over beaches

By John Hunt, Environment Correspondent

THE government is today launching a bid to persuade the European Commission to drop its prosecution of Britain over its dirty beaches.

Mr David Trippier, Minister of State for the Environment, will tell Mr Carlo Ripa di Meana, the EC Environment Commissioner in Brussels, that Britain is bringing forward the date by which all of its beaches will be able to meet the standards laid down in the Community's bathing waters directive.

Originally Britain said this could be achieved by the year 2,000. Now Mr Trippier is saying that nearly all the beaches will meet the standards by 1995 and that the remaining few – about nine – will comply by 1997.

There are 136 UK beaches that do not meet the standards and the Commission has started proceedings against Britain in the European Court.

"I don't see why we should be in the dock about this," said Mr Trippier yesterday. "We just can't do any more than we are at the moment."

He will meet the EC commissioner at the two-day meeting of EC ministers which starts in Brussels today.

Measures to enable member states to introduce tax incentives on cleaner cars which are less polluting will also be discussed during the debate on the vehicle emissions directive which introduces stricter standards for exhaust emissions.

The tax incentives would aim to encourage "greener" cars ahead of a further tightening of standards later in the decade.

"We hope to work for a position on the availability of tax incentives which all our partners can accept," said Mr Trippier. "As a member state we are prepared to consider fiscal incentives."

Britain will also be pressing for an earlier deadline to phase out of all CFCs (chlorofluorocarbons) which damage the ozone layer.

The meeting will be discussing European Community compliance with the Montreal Protocol provisions which stipulate abolition of all CFC use by the year 2,000, a 50 per cent cut by 1995 and an 85 per cent reduction by 1997.

It had been thought that abolition by 1997 was unacceptable because it would be impossible to find a substitute for CFCs used in medical aerosols by that time. But Mr Trippier believes that these substitutes will now be available by that date.

Nadir wins bail backing in Ankara

By David Barchard and Raymond Hughes

Mr Asil Nadir

TURKEY yesterday said it supported efforts by Turkish banks to raise the £2m needed to secure the release on bail of Mr Asil Nadir, the chairman of Polly Peck international.

The Turkish Foreign Ministry said: "Mr Nadir is our citizen. On the subject of bail, I know that banks in Turkey are making a significant effort and the Turkish government fully supports this. We hope the British judicial system will solve the issue in a fair way."

London lawyers for Mr Nadir, who have been trying since Monday to raise the £2m, could not be contacted yesterday for comments on the foreign ministry's statement.

Powerful advocacy on Mr Nadir's behalf is believed to have come from Mr Rauf Denktas, the Turkish-Cypriot leader, who visited Ankara this week. On Tuesday, he told journalists he was hoping for Turkish backing to find bail for Mr Nadir.

Mr Nadir spent a third night in London's Wormwood Scrubs prison, to which he had been taken on Monday when he was unable to raise all the £3.5m bail set by Sir David Hopkin, the chief metropolitan magistrate, at Bow Street court. It is believed to be the largest bail figure set by a British court.

Mr Nadir was visited yesterday by Mr Martin Lewis, one of his solicitors, who said his client was in good spirits. A Turkish diplomat also saw Mr Nadir.

An application to vary Mr Nadir's bail conditions appeared in yesterday's list of High Court business, but no lawyers arrived to pursue it.

Looking to the new political year there is one lesson: expect the unexpected. Not least of the mysteries is the future role of Mrs Margaret Thatcher

Major's path is still uncertain

By Philip Stephens, Political Editor

IF 1990 proved one of the most tumultuous years in recent political history, 1991 promises to be one of the more fascinating.

The manner of Mrs Margaret Thatcher's departure provided a salutary reminder of the perils of political prediction.

It was startling enough that the Tory party was ready to remove her. But anyone who had sketched out a sequence which began with a devastating speech by Sir Geoffrey Howe and ended with a poll tax review headed by Mr Michael Heseltine would have been invited to write the plot for the next political thriller to become a best seller.

So those convinced by the new certainties emerging at Westminster - that the only questions about the general election are the date and the size of the Tory majority - would be wise to make allowance for the unexpected.

Instead, 1991 might best be looked at something like this: there will probably be an election, but it is not certain; the most likely date is October but it might well be June and there is a small possibility that it could be March; on current form Mr John Major should win, but few of his colleagues dismiss the possibility of a hung parliament and a few are prepared to admit that Labour could just scrape through; if Mr Major loses he might well find himself the shortest-serving Tory leader since Sir Alex Douglas-Home; if Mr Neil Kinnock loses he will be replaced as suddenly as was Mrs Thatcher.

There can be no doubt about the new mood of optimism sweeping through the Tory Party. Ministers nowadays travel to cabinet meetings with smiles rather than frowns on their faces.

The panoply of policy "no-go areas" under Mrs Thatcher is gradually being dismantled. Ministers talk of policy reviews based on rational debate rather than of huddled discussions held in fear of offending the prevailing prejudices in Downing Street.

In the battle for the votes of the uncommitted, Mr Major is shifting the centre of gravity in the Tory Party back towards the centre.

He has not done a great deal yet but there are straws in the wind. Mr Heseltine's poll tax review seems set to conclude that there is only one way to deal with the flagship of Mrs Thatcher's third term - to sink it. The rating system is slowly being lifted from the ocean floor.

The prime minister is no instinctive federalist but his emollient tone at the Rome summit is the precursor for a more pragmatic approach in the substance of policy towards Europe.

He, like most in the Tory party, does not want a single currency, but if the others are determined to push ahead then Britain will be part of it.

There are other areas where the direction of policy will change.

Those wishing to speculate about the budget could do worse than to look at how Mr Norman Lamont, the new Chancellor of the Exchequer, may make a start of streamlining the tangle of poverty traps at the bottom end of the income scale.

In Mr Major's view the rich have had their incentives. It is time for a few rungs to be inserted at the bottom end of the income scale.

But the question Mr Major must be asking himself is whether promises for the future are enough.

As poll tax bills averaging over £400 drop through their letterboxes in April, it can hardly be taken for granted that they will applaud the government because it has promised to abolish it.

Nor can the government afford a pre-election spending spree to give authority to its credentials as a generous guardian of public services. Power now is in the hands of Treasury men.

They are convinced that inflation will fall much faster than generally expected next year, but they are not all convinced that there will be room for a significant relaxation of fiscal policy.

There are other uncertainties. Sterling's position in the European exchange rate mechanism is providing a brake on the interest rate cuts which will be needed to prevent an uncontrollablle slide into recession.

Britain's European partners may be unwilling to offer the "fudge" on a single currency that Mr Major needs. The prime minister himself is untested. The Gulf crisis is full of traps.

Labour will do its utmost to exploit the dilemmas. The rhetoric has changed, Mr Kinnock will agree, but where is what the Americans refer to as the beef?

Mr Kinnock's party is not as disconsolate as has been suggested. Mrs Thatcher's departure undoubtedly proved a trauma for the opposition, dashing its hopes that it could simply wait for her to hand over power at the election.

But the latest opinion polls have shown Mr Major's honeymoon lead pared to about three points.

Mr Kinnock's performances in the Commons this week were notably more confident. There is talk of a new year offensive to emphasise the positive aspects contained within Labour's policies.

There is another imponderable cheering the spirits of Labour MPs and sending shivers down the spines of Tory ministers. No-one at Westminster knows what role Mrs Thatcher may choose to play in the election campaign.

In the battle for the votes of the uncommitted, Mr John Major (pictured above with his wife) is shifting the centre of gravity in the Tory Party back towards the centre...but Britain's partners in the European Community may be unwilling to offer the "fudge" on a single currency that Mr Major needs. The prime minister himself is untested and the Gulf crisis is full of traps.

BRITAIN IN BRIEF

Crime rises by 16% in last quarter

Recorded crime in England and Wales was 16 per cent higher in the third quarter of this year than the same quarter last year, the second largest quarterly increase since records began in 1857.

The figures show a 14 per cent rise in the year to the end of September compared with an average annual rise between 1980 and 1989 of 5 per cent.

The largest increases were in crimes relating to property, with burglary up by 17 per cent and theft up 15 per cent.

Price increase at Vauxhall

Vauxhall, the UK subsidiary of General Motors of the US, is to increase the prices of its cars and light commercial vehicles by an average of 3.6 per cent with effect from January 14.

The Vauxhall move is expected to herald a round of price increases from other car makers in the UK in coming weeks despite the depressed state of the UK market.

Hurd hopeful on S Africa

There is a "reasonable chance" of a negotiated solution in South Africa although political violence in the country posed "the main impediment to progress", according to Mr Douglas Hurd, the foreign secretary.

He also welcomed the European Community's recent decision to lift its ban on investment in South Africa.

Speaking at a House of Commons select committee, the foreign secretary urged Commonwealth countries to consider restoring sporting links with Pretoria, and defended government's policy of linking aid levels to "good government" in the recipient countries.

Hurd: seeking solution

Engine-maker cuts 600 jobs

Cummins Engine, the loss-making US diesel engine producer, is to cut 600 jobs in the UK over the next 12 months and transfer some activities to the US.

The company, which has six British facilities, attributed the moves partly to this year's collapse of the UK truck and bus markets.

The cutbacks mean that by the end of next year Cummins will have lost 12 per cent of its UK work force of 5,000.

Compensation for investors

Some £12m of compensation is expected to be paid to customers of investment firms which have gone bust in the past nine months, Mr David Walker, chairman of the Securities and Investments Board, told MPs.

This is sharply up on the £7m of the previous twelve months, and is likely to rise further by the time the Investors' Compensation Scheme's financial year ends in April.

Mr Walker said it was right not to have raised the maximum pay-out under the compensation scheme from the £48,000 at which it has stood for the past two years.

Action pledged on jail suicides

Action to reduce the number of suicides in prison has been pledged by the government in the wake of a report from Judge Stephen Tumim, chief inspector of prisons.

So far this year 48 prisoners have taken their own lives and Judge Tumim's report says strategies to prevent suicide are not working well enough. He calls for improvements in the design of cells and prison hospitals, and says a target date should be set for completing the installation of integral sanitation in cells.

Approval for power station

Powergen, the smaller of the two generating companies to be floated in February, has won planning consent for a new power station in southern England.

The station, sited near Hoddesdon, Hertfordshire, will be one of the largest of the new generation combined cycle gas turbine (CCGT) stations.

Arts funding reform delayed

Mr Timothy Renton, the new arts minister, said plans to devolve the system of arts funding will be slowed down to give the proposed regional arts boards more time to get established. Mr Renton added that he remained committed to the devolution strategy which is intended to strengthen regional accountability and increase value for money.

The devolution will now take place in two stages – the first in April 1992, with the timing of the second phase to be suggested by the Arts Council.

World's 'fastest' drophead goes on sale

A British motor manufacturer has launched one of the country's most expensive sports cars. The £98,000 Tempest (pictured above) is being produced primarily for overseas customers by the Jankel Corporation, based in Surrey, southern England.

Mr Robert Jankel, the designer, claims the Tempest will be the world's fastest drophead car in production – accelerating from 0-60mph in 3.5 seconds with a maximum speed of more than 200mph. The company plans to build six cars a month.

Christmas crackdown on credit

Emma Tucker, in London's West End, on shoppers and borrowing

YESTERDAY'S crackdown in the promotion of consumer credit was in part a reaction to the belief that credit card borrowing to finance spending has got out of hand.

But the government's announcement coincided with one of the quietest Christmas shopping sprees in recent years, and shoppers in Central London were quick to claim that they were being more responsible in their use of credit cards than was commonly believed.

Concern over credit card debt was fuelled last month by figures from the CSO showing that the amount outstanding on credit cards was £7.1bn at the end of October.

The CSO said new credit advanced on credit cards in October totalled £2bn, but it also pointed out that much of that would have been paid off at the end of the month.

Barclaycard said yesterday almost half its customers paid their debts in full at the end of each month – three years ago that figure was 41 per cent, since when the proportion has risen every year.

It said borrowing on Barclaycard in October – the amount outstanding at the end of the month – was up 4 per cent on September, which it said was normal for the time of year.

So while the CSO figures showed a sharp increase, the evidence from the big credit card lenders was that borrowing was normal.

Mrs Elizabeth Stanton, director of the Retail Credit Group, a trade association of retail finance companies, said: "There is something odd in the figures. There doesn't seem to have been any great explosion either in credit or in sales."

The group's figures showed that the total amount owing on retail cards did not change significantly from August to October, staying roughly at a level of £1.2bn.

This year, faced with the slump in high street sales, retailers are offering attractive deals to Christmas shoppers.

But anecdotal evidence from Christmas shoppers in Central London would suggest that this year's shoppers, more timid than last year's, have woken up to the dangers of credit card borrowing and are reacting anyway to the high cost of borrowing without any help from the government.

London's central shopping district, clustered around the main thoroughfares of Oxford Street and Regent Street, is normally a seething mass of shoppers as Christmas approaches. This year many retailers point to a worrying lack shopping hysteria.

Mr Ian Couldrey, shopping in Oxford Street, was not a victim of the alleged credit card hard sell. He had never had a credit card. "I know what I am like," he said. "I would go straight out and spend all my money."

In another shop, Mrs Penny Cann said she was equally on top of the situation. She had 11 credit cards – a combination of bank credit cards and store cards – but no debts to pay. Shopping with a credit card was purely a matter of convenience.

"I don't run up debts, but pay all the cards off at the end of each month," she said.

Less lucky was Miss Katie Orchard, a personal assistant, who said that in order to afford the cost of living in London, she faced a choice of either a bank overdraft or a credit card debt. She believed the credit card alternative to be the cheaper.

"I don't like using my Access card, because it takes so long to pay it off," she said. "I have had it for a year and a half and I have never managed to get it down to nought."

Her debt is now running at around £700. "I am having problems paying my debts now, let alone after Christmas," she said.

Unlike Miss Orchard, Mr Patrick Bateson, who works for London Underground, said he enjoyed the convenience of a credit card but could get by without one.

"It bothers me being in debt," he said. "I try to pay it off at the end of every month and I only really use it for booking holidays."

All the bodies responsible for issuing retail or credit cards continue to stress the caution with which they do so. Marks and Spencers, which only accepts its own retail card, said that its decision to issue the card, was in response to customers needs rather than as a means of encouraging them to seek credit.

Shopping by card: caution is growing among customers

MANAGEMENT: Marketing and Advertising

Computer games

Nintendo zaps its Christmas rivals

David Churchill explains why the Japanese product is finally enjoying in the UK the popularity it has experienced elsewhere

Love'em or hate'em, many retailers and marketers have a lot to thank Raphael, Leonardo, Donatello and Michaelangelo for this Christmas. With the toy trade hit hard by the recession, sales of merchandise associated with the four Teenage Mutant Ninja Turtles (or Hero Turtles in the BBC's watered-down version) have put the only real sparkle into a moribund toy market in recent weeks.

Especially grateful for the popularity of the albeit heavily hyped Turtles this Christmas is Japanese electronics company Nintendo, manufacturer of the Nintendo Entertainment Systems' video cartridge game.

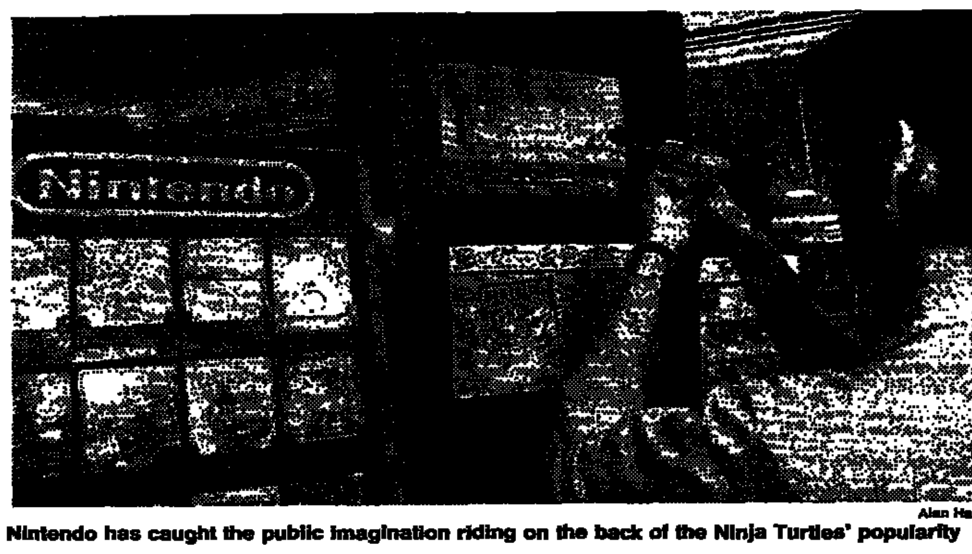
Although this game became the most popular toy of the 1980s in both Japan and the US – it has been the top-selling toy in the US for an unprecedented three years running – Nintendo failed to crack the UK toy trade. Not only that, demand for the video game in the UK lags behind every other major market in the world – from Australia to Scandinavia.

Yet this Christmas, retailers report that Nintendo is up there with the Turtles at the top of the UK's toy-buying list, having overcome retail and consumer disenchantment with video games. It is selling strongly in a depressed toy market, bucking the trend towards safe and reliable favourites such as Lego, Barbie dolls, and Scalextric race sets.

"It's come through from nowhere to establish itself as the best-selling new toy product apart from Turtles," says Gerry Masters of the British Association of Toy Retailers.

Most in the toy trade would have confidently bet that high-value, electronic toys were doomed to remain on the shelf this Christmas. However, Nintendo is the only video-game company to offer an adventure played out on television screens featuring the Turtles whose crime-fighting activities are the "in" craze this Christmas. The game retails at £79.99 for the game console plus software cartridge (or £35.99 for the software alone).

The popularity of the Turtles has been "the catalyst that we were waiting for," admits Mike Hayes, marketing manager for Bandai (UK) which markets Nintendo in the UK. "We're about two and a half years behind the States in terms of Nintendo's market penetration and needed something dramatic to give us a boost."



Alan Harper

Nintendo has caught the public imagination riding on the back of the Ninja Turtles' popularity

Nintendo's popularity in the US – it has 80 per cent of the video games market and is established in one out of every three households – had first to overcome the scepticism of both retailers and consumers. Video game products had been the boom sector of the toy trade worldwide in the early 1980s, pioneered by companies such as Atari.

But over-rapid growth, and too many inferior quality copy-cat products quickly burnt out the market. Few retailers seemed willing to risk investment in what they saw as yet another fickle game fad.

Nintendo wooed American retailers with the promise of a "buy-back" of any unsold stocks and a saturation advertising campaign to build demand. It also concentrated efforts on maintaining high quality software (unlike some of the cartridges sold in the early 1980s) by controlling the manufacture of all games played on its machines.

Its marketing strategy also included broadening the range of games to expand the player profile, moving away from the core target market of boys aged from seven to 14 and appealing to pre-school age children, girls, and adults. Four out of every ten American users of Nintendo are adults and many play Nintendo sports games, for example, during lunch breaks in offices.

Nintendo's US success encouraged it to market the game internationally, with considerable success in most European markets – especially Scandinavia and France – but not in the UK. The problem in Britain was the lack of a clear marketing strategy compounded by uncertain support from UK distributors, first Mattel of the US and then Nintendo's UK licensee.

However, in the summer of last year, Serif Cowells, the UK quoted games company which made its fortune from selling Trivial Pursuit in the UK, took over marketing Nintendo in the UK. Serif started to implement a new marketing plan but found that Nintendo required it to invest £60m in stocks which it could not afford to do. So its marketing team – headed by Hayes – went to another Japanese company, Bandai, which had already worked closely with Nintendo in marketing the video game in France.

"The rapid changes in distributors didn't help us get a co-ordinated approach," admits Hayes. Nintendo's lack of focus on the UK market, however, enabled another Japanese video games company, Sega, to make inroads into the UK market with a similar video game.

Hayes strategy has been to concentrate on the core market of seven to 12 year-old boys. Some £2m worth of television advertising this year (double that spent in 1989) is aimed, he says, at creating "pester power". "We want the kids to be aware of our game and keep on asking their parents for it by name rather than just saying they want a video game," says Hayes.

"Our aim is to get our consoles into as many homes as possible before we can think about broadening our market." This strategy is aimed at capitalising on the "blocking chip" in Nintendo consoles which prevents other game cartridges from being played on the machine.

The importance of getting consoles into homes is based on simple economics; for every console sold (at about £80 each if not part of the special Turtle promotion) the average American user buys nine cartridges (at about £30 each), although the international average is five cartridges per machine. These cartridges, moreover, provide higher margins for manufacturer, distributor, and retailer than the console itself. "Clearly the more game cartridges we can sell, the better," admits Hayes.

Yet building brand loyalty with consumers was only part of the strategy; the other has been to win retailer support. "Our approach has been to work with retailers and to sell to them only the stock they can themselves sell," says Hayes. Big retail accounts are monitored weekly: "If a particular game isn't selling well, we take it back and give them another."

Such an approach has won over the sceptical trade buyers from all the major retail chains, with Dixons coming on board earlier this year and quickly becoming Nintendo's major UK stockist. From 300 retailers stocking Nintendo games 18 months ago, the number has now reached over 2,000.

Bandai has also invested £1m in new merchandising equipment – some displays allow children to try out the game in store. "Our research showed that 60 per cent of final purchasing decisions were taken as a result of seeing an in-store display," says Hayes.

Nintendo's UK strategy will, if all goes according to plan, follow the pattern set in the US and in continental Europe. Within a couple of years, the marketing push will aim at broadening the appeal to adults and teenagers. Already Nintendo has moved in this direction with the launch into the UK of a hand-held game called Gameboy to appeal to these groups.

These plans, however, could go awry if the recession deepens. "But we're still at that stage in our growth cycle where we're considered a fashionable game," believes Hayes. "I think even in a recession people want to buy the latest craze. Our job is to extend the product's range through developing games people want and other uses for the machine." In the US, Nintendo already has ambitious plans for developing its existing consoles into personal computers to tackle head-on computer giants such as IBM and Apple. "But that's still some way off for us," admits Hayes.

An article on the implications for Europe's software industry of the success of Nintendo will appear on tomorrow's Technology Page.

Stone's gingers up sales

Philip Rawstorne reports on one of the UK's first own-labels

Nothing marks the onset of the British winter more surely than the first appearance of a television advertisement for Stone's Original Green Ginger Wine.

In Britain, Stone's is still widely regarded as an agreeable substitute for central heating: mix it with whisky into the cockle-warming "Whisky Mac" popularised by an Indian Army colonel named MacDonald in the 1800s.

"It's what winter was made for," the advertisements proclaim with the confidence of a brand that has survived 250 such seasons.

Made since last year in Leeds by HP Mather, a subsidiary of Matthew Clark, the country's largest independent distributor of wines and spirits, the ginger wine has been closely linked for most of its history with the City of London, the coat of arms of which is featured on its labels.

The Stone's brand name can claim to be one of the first retailers' "own-labels". It traces its origins to a distillery established at Holborn Bridge by Robert Walsham in 1740. In 1751 parliament attempted to control the consumption of spirits by forbidding distillers to retail their products – and Walsham is believed to have sold his ginger wine through a grocer named John Stone, an old neighbour and friend.

By 1804 the distillery was producing 300,000 gallons a year of spirits, mainly gin, and wine. Sales of ginger wine boomed, especially during the cholera epidemic of 1832. The concoction – made from adding ginger to the liquor of fermented currants and raisins – was believed to have medicinal properties that provided some protection against the disease.

In 1848 Joseph Stone, the 13th child of John Stone the grocer, set up his own business as a wine and spirit merchant, and stamped his name indelibly on the ginger wine. He was the first to use the City of London's arms on his labels – apparently with the authority of his brother-in-law, Warren Storms Hale, a City alderman, sheriff and eventually lord mayor.

By 1907, an article in The Standard newspaper was recommending it as an after-dinner liqueur or, diluted with water, as a refreshing draught.

Customers at this time included regional brewers such as Adnams of Southwold, and Eldridge Pope of Dorchester.

The company, incorporated in 1916, used advertising to promote the product increasingly in popular newspapers such as the Daily Mail during the 1920s and 1930s. EW Barney, a founder of the Association of British Advertising Agents, coined the long-running slogan: "Sip it. Drink it. Drain it." A variety of fictitious characters from Old Sam Barnacle to the Merrie Monk (until protests came from the churches) radiated the product's "genial good cheer".

Though hit by shortages of supplies – sugar and ginger came from the West Indies – Stone's struggled through the Second World War. Its fortunes were revived by a decision to become one of the first advertisers on the new independent television network in the winter of 1956. The black and white commercials included one, considered rather daring, of a young woman reclining on a sofa, urging her boyfriend not to be cold, and have a Stone's.

The impact was immediate – sales increased every year until, in 1964, they reached 600,000 gallons. The success of the Rolling Stones pop group in the 1960s came as a promotional bonus. "What do you expect for 15 bob – Mick Jagger?" asked a Stone's advertisement.

The 1960s brought a merger with Matthew Clark, and the first serious move into export markets. A licensing agreement for the production of Stone's was signed with Angoves, a vermouth producer, to make the ginger wine in Australia.

The Australian market now accounts for a quarter of Stone's worldwide sales of more than 400,000 cases (of 12 x 70cl bottles) and is second in importance to the UK, with sales of 250,000 cases.

Now sold in 42 countries, its appeal is based not only on its versatility as a mixer – as a winter drink with rum or whisky; or in summer with Coca-Cola, lemonade, or soda water – but on other real or imagined qualities.

In the Caribbean – where the people of St Kitts drink more of it than anybody else in the world with a yearly average of four bottles each – it owed much of its original popularity to its supposed potency as an aphrodisiac. Advertisements, now banned, claimed it "increases male virility . . . stimulates appetite . . . increases sex drive."

The same West Indies advertisement also stressed its ability to "restore lost energy . . . increase blood flow . . . cure coughs and colds." And the wine is widely drunk for such therapeutic reasons from the US to Japan.

In Malaysia, to conform to Chinese ideas of what is lucky as well as what is good for the stomach, the wine is sold in bottles with red labels instead of the more familiar green.

The Stone's brand name is also being extended. A premium wine, "Exhibition 1912", made from an old recipe discovered in the distillery's archives, was introduced in 1984.

"Stone's has come a long way," says Charles Maxwell. "But as a brand there are still lots of places for it to go."

TECHNOLOGY

Power link boost for Long Island

THE world's longest underwater power transmission cable, stretching along the Long Island Sound in the US, is currently being laid in a $100m (£51.8m) contract between the New York Power Authority and Pirelli, the Italian tyres and cables group.

The 32-mile double-armoured submarine cable, made at Pirelli's works near Naples, is due to link Long Island to the New York State electricity grid by the middle of next year, in a project expected to save around $1bn in electricity costs over the next 25 years.

The 345 kilovolt circuit will have a capacity of 600 megawatts. The 4,500 tonne cable, which has just arrived in New York aboard Pirelli's Giulio Verne cable-laying vessel "is the largest fluid-filled cable ever used in the US", according to James McCourt, of the company's US cables systems division.

In all, four cables, measuring 15cm in diameter, will provide Long Island with urgently-needed electricity from power stations in upstate New York and Canada.

Work on the underwater phase of the project began in October 1989 following lengthy surveys. The next stage, undertaken this autumn, involved removing 70 obstacles blocking the route.

Despite delays, including a four-month gap to accommodate summer boating traffic and meet environmental considerations, Orlando Raimondo, president of Pirelli Cable, says the project is expected be completed on schedule.

The new generation of high-voltage, double-armoured cables have posed a challenge to cable-laying companies, as their weight and bulk make them too big for conventional cable-laying ships. According to Pirelli, a huge rotating platform fitted to the stern of the Giulio Verne allows it to instal cable at three times the stress limit on typical cable-ships. Installation on the seabed will be done by two robot submarines manufactured by Pirelli Jacobson, the nautical rescue and salvage group bought by Pirelli in 1986.

Haig Simonian

Essential ingredient in any celebration

David Fishlock raises a glass to ethanol, the chemical which underpins every alcoholic drink

"Wine is the most healthful and most hygienic of beverages." – *Louis Pasteur.*

Once – long ago – I caused deep offence to a brewer abroad by asking to interview him about "chemical beer". I had fallen for a popular myth which still has currency, namely that some alcoholic drinks are synthetic, made from a cocktail of chemicals.

This is no more true of branded drinks than of foods; although their "naturalness" is no guarantee of purity, any more than it is for food. Every drink contains a catalogue of chemicals drawn from the soil, plants, and process waters, as well as by-products of biochemical reactions, and a few the manufacturer has thrown in.

But the alcohol we drink is made by fermentation, also known as industrial microbiology or biotechnology. Yeast, a living micro-organism, when fed on a solution of sugars will turn them by biochemistry into ethanol (ethyl alcohol) and carbon dioxide.

This reaction continues until the brew is rich enough in ethanol to stop it. Wines normally reach about 10-15 per cent ethanol – the higher level in, say, a full-bodied burgundy – before the reaction stops.

Ethanol is a curious chemical, rich in idiosyncrasies. Odourless and "water-white", it mixes with water in all proportions. If the water is pure, such mixtures will have neither taste nor flavour – they are called neutral spirit – although high concentrations will burn the mouth and throat. Around 40 per cent ethanol – about 80 proof, the concentration of most branded spirits – seems a natural limit for human tolerance. Higher concentrations can be a rather unpleasant sensation, as I learned as a young chemist. I have a Polish vodka of about 120 per cent proof that rekindles the memory.

Any flavour or aroma comes from elsewhere – from such feedstocks as grapes, potatoes or molasses, from the water supply, or from the casks in which it has been stored. Synthetic alcohol, made chemically from a petroleum feedstock, would be both purer and substantially cheaper, but would still be unacceptable to the 90 per cent or so of western people who drink alcohol at least occasionally.

There is a delightful American book called "Moonshine" about the pursuit of illicit distillation in North Carolina, which includes this graphic description of the "mash" of corn meal, sugar, water, yeast and malt commonly used by entrepreneurs to make alcohol in that State. "Maggots spawn in mash. Rats, snakes, owls, possums, foxes and other small creatures find their way to it and drink it and get drunk and fall in and drown. Sometimes the bootlegger puts his own wild-life in it to discourage mash hounds, alcoholics who discover the mash and sip it through reeds."

Licenced distillers start with a similar mash in this area but practise better hygiene. Ironically enough, one of the most deadly ingredients of illicit liquor is lead dissolved from the makeshift plumbing in distilling the mash.

Scientists sometimes need an exceptionally pure kind of alcohol, known as spectroscopically pure ethanol, for more sensitive kinds of analysis. For this, it is distilled at least four times.

Another curious property of ethanol is the way it potentiates flavours and odours, getting the most out of traces of foreign substances. This is well known to the perfume chemist, too. Top perfumiers will also stress that they use distilled and not synthetic alcohol.

But the food processing industry uses synthetic alcohol because it is cheaper as well as purer in many products, including Christmas cakes and puddings. Cooks exploit this potentiating effect, both to bring out the flavour of other foodstuffs such as meats and to add piquancy. But don't waste the best brandy to flame Christmas pudding for what is almost entirely theatre.

Ethanol reacts with the brain. As a medical friend of mine is wont to say, memory is soluble in alcohol.

There is also experimental evidence, although it is a difficult area to study objectively, for reasons once illustrated by the late Dr David Carrick, in an executive health column he wrote for this newspaper. He advised that, when questioning someone about drinking habits and that person replies laconically "oh, about a bottle a day – and the odds and sods", leave the bottle aside. Concentrate on the "odds and sods". They can add up to more than another bottle.

What the scientist calls cognitive impairment has attracted much scientific attention lately. But Dr Christine Clifford, a psychiatrist with the University of Tasmania, in the latest issue of the Australian journal Drug and Alcohol Review, accuses researchers of ducking the question of just how much alcohol "is too much for normal healthy cognitive functioning".

The scientific literature tends to characterise those who drink either as "social drinkers" or as "alcoholics", with no biochemical evidence to distinguish between them. (Dylan Thomas defined an alcoholic as "someone you don't like who drinks as much as you do.")

Once there was a view that as few as three glasses a day caused brain damage, but it was based on research now seen as fundamentally flawed. Reports in the past decade, however, suggest that the brains of those characterised as "alcoholics" are both smaller and lighter, Dr Clifford says.

A more popular topic is why alcohol gives you a hangover. The fact is, it doesn't. Whatever damage ethanol itself may cause to the mouth, throat, gut, liver, etc., it is not responsible for the pain in the head.

Another medical friend once told me of experiments he managed early in the Second World War, when his London hospital had been cleared to await the first air-raid casualties. He saw a perfect opportunity to do long-cherished research into the hangover content of different drinks, using medical colleagues as guinea pigs. To minimise any subjective response, they were fed liquor by tube straight into the stomach.

This experiment showed the drinks most likely to cause hangover were sherry and cheap red wine. Both are thick with what the chemist calls congeners – chemicals closely related to ethanol, which oxygen and time will mostly eliminate. Least likely to cause hangover are vodka, which is an exceptionally pure alcohol-water mixture (even the distilling of dry gin involves steam and other substances), and well-matured drinks such as single-malt whiskies or premier cru claret.

Most drinks not only rely at least partly on impurities for their distinctive flavour and aroma, they also contain more prosaic additives. Not many makers go to the extreme of Bailey's Cream, a liqueur for which the scientists had to find a way of stabilising and preserving an emulsion of chocolate, cream and alcohol. But many drinks will have stabilisers, preservatives, colourants and foaming agents. A recent book called "Name Your Poison" lists about 20 chemicals added to wines, and about 60 added to beers.

Ethanol can also be used as an anaesthetic. Once there was nothing but alcohol and opium to relieve the agony of amputations. Now there are much stronger and faster-acting agents. But the most potent are also addictive. Alcohol may still be given as well as other pain-killers to ease severe chronic pain and make the medicine more agreeable.

Prof. James Payne, the London anaesthetist who developed the science underpinning Britain's 1968 law introducing the breath test for drivers, used ethanol as a model anaesthetic in his research because it produces a more graceful decline into oblivion than the powerful agents used in the operating theatre. He retained the co-operation of his subject for most of the experiment. His volunteers were invited to pick from his cocktail bar the anaesthetic of their choice.

Toys take school lessons into space

By Lynton McLain

CHILDREN'S toys and educational projects proposed by Britain's first Space School for children are likely to be the main experiments carried into space by Britain's first astronaut. A shortage of money has harmed the prospect of any major British-designed scientific experiments being carried.

Britain's first astronaut, either Timothy Mace or Helen Sharman, is to fly in the Soviet Mir space station in May as part of the Anglo-Soviet Juno space mission.

In order to get some British experimental involvement and to use the mission to stimulate the interest of British schoolchildren in space and science, Rodney Buckland, the organiser of Britain's first Space School, based at the Institute for Bioengineering at Brunel University, near London, has proposed a selection of toys for Mace or Sharman to carry alongside five educational experiments. These educational experiments are still dependent on the Space School finding £100,000.

Buckland says this money could be found readily by modest contributions from industry and commerce, but time is running short, with the experiments needed in the Soviet Union within only a few weeks. Without the funds, there may be no educational experiments, just the toys.

The toys are all mobile and ultra-cheap, at £6 to £7 for the lot. They include a yo-yo, a gyroscope, magnetic marbles, a "space slinky" coil spring and a paper aeroplane. Individual schools can provide their own toys for earth based experiments to compare with the way the toys behave in space.

The toys in orbit will all be "operated" – played with – in the weightlessness of space.

Buckland says "the Mir space station will become a classroom where the first British astronaut can demonstrate live on television how familiar toys behave in a weightless environment." The work will help schoolchildren understand the principles of gravity, conservation of energy and momentum, inertia and other physical laws.

Buckland and the Space School will encourage schools to pose questions about how the toys may behave in space and suggest experiments to find the answers as well as to predict results in the absence of gravity.

The Brunel Space School was launched in July with 102 schoolchildren. A Space Class for 14-15 years olds and the European Space School for 16-18 year olds was also held, at Brunel University last summer for 250 children.

The children were able to meet people who worked in the space industry, so learn about satellites, solar sailing - the use of cosmic "wind" to propel spacecraft - and rocketry.

A "Mining the Moon" project was launched at the European Space School, at Brunel, in August. The experiments involved the creation of a 25 square metre papier maché moon surface, with moon buggies, video cameras and robot arms for digging the "moon" soil and loading the buggies.

Schoolchildren, from 16 years to 18 years, operated video-based simulators in another room, as if they were trying to control the moon mining from earth. The students had to take account of the 1¼ second delay between a signal going from earth – the room next door – to the moon and the same delay for a response from the surface of the moon.

Although Brunel founded the first Space School, the idea is blossoming. Space Class Scotland '91 is to be held at Queen Margaret College, Edinburgh, Space Class '91 will be at Leicester University in April, and in August the European Space School '91 will be held at the University of Kent for 16-18 year olds from member states of the European Space Agency.

The ultimate space school, however, is probably the International Space Camp, an annual five day course at Huntsville, Alabama, where students teachers can experience astronaut training with delegations from 21 countries.

Space education for children is becoming an practical part of school life. Dozens of UK schools have joined 10,000 US schools to study tomato seeds sent into space and recovered by the US Space Shuttle.

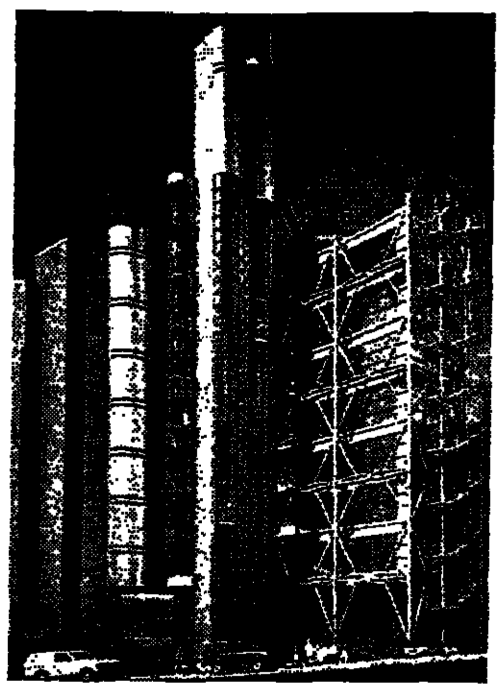
FINANCIAL TIMES SURVEY

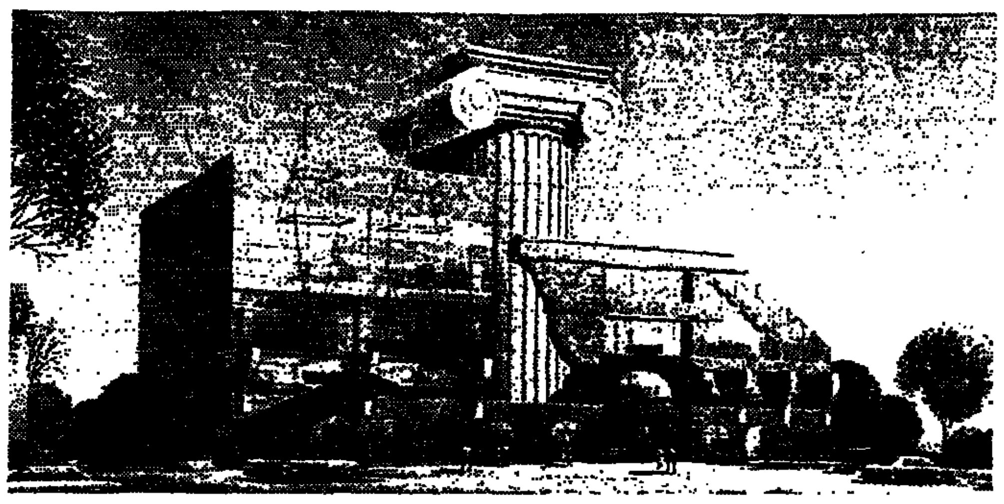
JAPANESE AUTOMOTIVE INDUSTRY

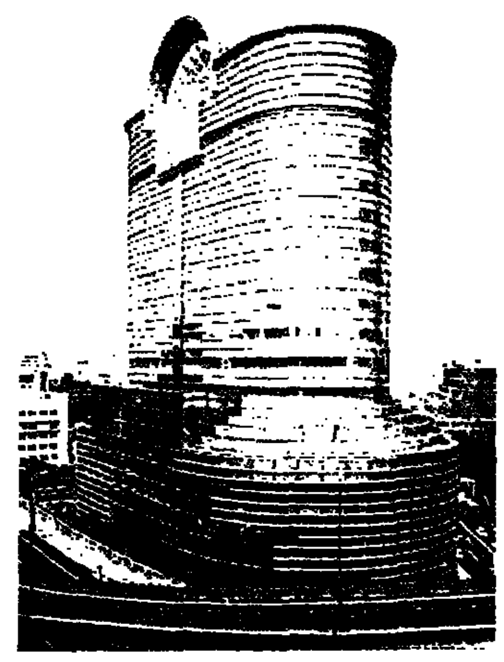
Thursday December 20 1990

First came the export drive. Now, Japanese manufacturers have switched their strategic focus to the development of "transplants" abroad. Already, they have a substantial presence in the US. The battleground is shifting to Europe, writes **Kevin Done**

The global network







The rapidly changing face of motor business in Japan. (Above) Mazda's multi-function M2 building, under construction, will serve as a Tokyo showcase for its vehicles; to gather information and opinion from consumers about models of the future, and as an initial design and development centre. (Left) The new headquarters of Rover Japan, to be occupied by the UK group early next year, symbolises a major wave of investment by western vehicle makers expecting nearly ½m sales by the mid- to late-1990s. (Right) Toyota's Amlux, the multi-storey exhibition centre in Tokyo which has just opened, houses the company's products in "lifestyle" settings, with bars, concert hall and a cinema.

THE JAPANESE challenge in the world motor industry has taken on daunting proportions. With 11 Japanese assembly plants and three engine plants operating in north America, the focus of the development of a global production network is now moving to Europe, which is set to become the battleground of the 1990s.

In the US, Japanese cars already take more than 30 per cent of the market (including Japanese-derived cars sold under US car makers' badges), and the transplants, Japanese vehicle plants located overseas, accounted for 21 per cent of US car output in the first six months this year.

A provocative study* published recently after research undertaken by the International Motor Vehicle Programme at the Massachusetts Institute of Technology, claims that "the speed and scale of this process are truly extraordinary. Nothing like it has ever occurred in industrial history.

"In effect, between 1982 and 1992 the Japanese will have built in the US mid-west an auto industry larger than that of Britain or Italy or Spain and almost the size of the French industry. By the late 1990s the Japanese companies will account for at least a third of north American automobile production capacity – perhaps much more – and have the ability to design and manufacture entire vehicles in a wholly foreign culture 7,000 miles from their origins."

Automobile production in Japan itself last year reached 13m units, including cars, mini-vehicles, trucks and buses. Japan overtook the US as the world's largest vehicle producer in 1980. Since then, its lead has not been challenged. (It ousted the US as the world's biggest car-maker in 1987.) Last year Japan accounted for 26 per cent of the world's vehicle production.

Japan's progress has been remorseless as domestic vehicle production has grown sevenfold in the last 25 years. The initial expansion abroad was through direct exports and the development of simple kit assembly operations overseas, but in the last decade as trade frictions have grown, the overseas expansion has become much more sophisticated.

Japanese vehicle makers have established fully-fledged manufacturing operations abroad, and in response to demands for higher local content, they have looked increasingly to the use of local components suppliers.

Local content remains a vexed issue for their overseas competitors, however. In the US, the vehicle assemblers have been followed by a wave of Japanese components suppliers, which also seek to globalise their operations and see the transplants as providing a bridgehead in foreign markets.

With overseas assembly capacity either under way or already in place – total production capacity of the Japanese transplants in north America could top 2.5m vehicles a year by 1992 – the Japanese are now moving to the next phase of their overseas expansion by setting up vehicle development and engineering resources abroad.

Some foreign car-makers are still deeply sceptical as to whether their Japanese rivals will be prepared seriously to engage in such moves, preferring to view the Japanese assault as being based on screw-driver plants with dubious levels of local content.

Such a view overlooks developments already under way, however, and it significantly disregards the attraction for Japanese producers, facing shortages of skilled engineers at home, of being able to draw on the wider reserves of the labour markets in north America and western Europe.

The imposition in the US of restraints on Japanese direct car exports at the beginning of the 1980s has probably accelerated the build-up of Japanese manufacturing capacity abroad, and the US ceiling on car imports is now largely academic as the volume of Japanese car exports has fallen, albeit modestly, in the last two years. (While the volume has fallen, however, Japanese car-makers have increased the value of exports by moving rapidly to more profitable executive and luxury cars).

Japan's automobile exports have been on a declining trend since 1985, when they peaked at 6.73m. In 1989 they fell by 3.6 per cent to 5.88m. The continuing increase in production has been made possible by a surge in domestic demand in the last few years, which saw total Japanese new vehicle registrations jump by 8 per cent in 1989 after 11.7 per cent in 1988.

The country's vehicle makers are also investing in extra capacity at home, spurred by an increase in domestic new car sales of 18.5 per cent in 1989 and 13.5 per cent in 1988.

According to Mr Tetsuo Arakawa, its vice-president for international operations, Nissan Motor has a "clear-cut" commitment to reduce vehicle exports from Japan as it builds up overseas production. "By the end of the 1990s, we plan to reduce our export volume to roughly one half of the peak level of 1986," he says.

"How to come to grips with globalisation will be one of the major issues facing the motor vehicle industry during this decade," maintains Mr Arakawa. Nissan's response in part has been to create two new umbrella companies, Nissan Europe and Nissan North America this year.

Mr Arakawa says the company is "in the process of transferring to them most of the functions and authority of our head office in Japan." Nissan had laid the foundations for the localisation of decision-making so as to establish a "tripolar management structure encompassing Japan, north America and Europe. "We will need to manage our operations from the standpoint of one global market and one global production system."

While north America was the main stage for the trade conflicts arising from the rapid overseas expansion of Japan's automobile industry in the 1980s, the focus has now shifted to Europe, where the European Community is still in disarray over the formulation of a policy to deal with Japanese car imports in the era of the single European market.

The Japanese industry has by and large preferred private lobbying to public attack in the battle to gain the ear of Brussels, but earlier this year Mr Yoshikazu Kawana, president of Nissan Europe, did break cover to put the Japanese case.

It was "in the interest of European industry to live with open markets," he said. Europe needed a greater competitive edge to establish itself in markets where there was little or no indigenous vehicle industry. "The real battle will be fought on these neutral territories, where neither Japanese nor European manufacturers have a home advantage."

However, car-makers in Europe are lobbying hard for continuing protection beyond the end of 1992. "An open door policy to Japanese assembly plants without some strategy to ensure that they include a reasonable level of European economic benefit, employment and added value begins to look like a local form of harakiri," says Mr Lindsey Halstead, chairman of Ford of Europe.

To the authors of the MIT study, however, "scaremongering about the Japanese threat and tougher forms of protection are not the answer and are self-defeating."

They claim that what lies behind the Japanese vehicle industry's success in the last two decades is a revolution in manufacturing as sweeping as the triumph of mass production over craft production in the early part of the century. Techniques of so-called "lean production", developed in Japan, have rapidly made mass production obsolete, they say.

These developments are seen as the key to the disparities in performance of the world's leading car makers. The study shows that Europeans take more than twice as many hours as the Japanese to assemble a car. It takes the Europeans and the Americans almost double the engineering effort to develop a new car compared with the Japanese, and the Japanese will be finished in two-thirds of the time.

**The Machine That Changed The World, James P. Womack, Daniel T. Jones & Daniel Roos. Rawson Associates, Macmillan New York, $22.50.*

IN THIS SURVEY

COMPONENTS SECTOR

Next stop: Europe

THE PAST few years have provided good times for Japan's component makers.

They have benefited from very strong growth in their domestic car market, and the heavy dependence Japan's vehicle makers place on them. The components sector accounts for about 70 per cent of the production cost of Japanese cars, compared with around 60 per cent in western Europe and only around half in north America.

More than 350 Japanese component suppliers have surged into the US in the wake of Japanese vehicle makers which this year will produce around 1.2m cars and light commercial vehicles at their north American "transplants", and are installing capacity for many more.

Western Europe is emerging as another area ripe for expansion by the Japanese components industry, with vehicle manufacturing plants being set up by Nissan, Honda and Toyota in the UK, plus other plants in Spain, acting as the catalyst.

Elsewhere in the world, notably developing Asian nations, it is mainly Japanese vehicle and component makers which have been transferring the technology needed for countries like Malaysia to get their fledgling car industries off the ground.

The picture is not a wholly bright one, however.

Like most other of Japan's business sectors, the components industry is becoming enmeshed in a gathering labour crisis.

Already, there are nearly one and a half jobs in Japan for every available employee.

Worse, grumbles Mr Chosei Ujie, executive managing director of Nippondenso, Japan's largest – and the world's second largest – components producer, many young employees, graduates and non-graduates alike, "don't want to work". At least, he implies, they have little or no intention of continuing the slavish devotion to duty of Japan's previous generations, for whom working prolonged hours and forgoing holidays have been perceived as a badge of honour.

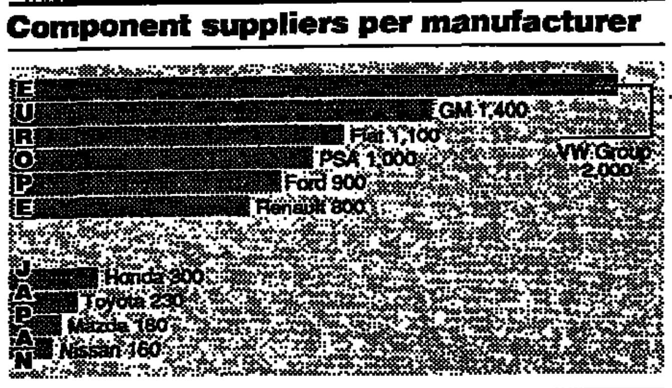
Whatever the pros and cons of that particular debate, the effect is the same: to exacerbate the labour shortage in a country still reluctant, for sociological reasons, to alleviate it by a wholesale return to work by married women.

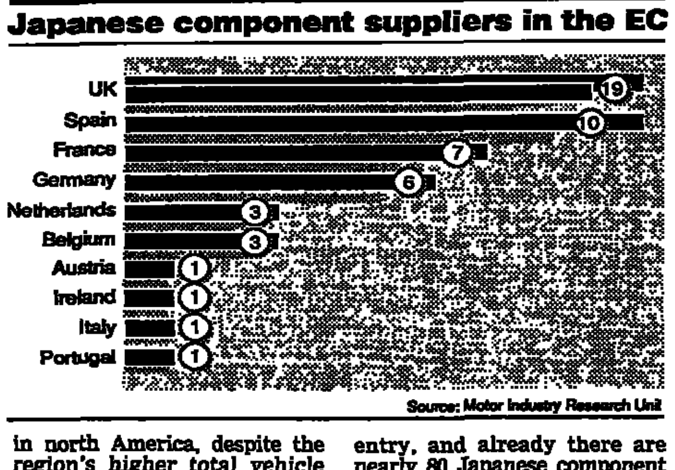
Domestic expansion has been increasingly inhibited, too, by a daunting spiral in land costs which only recently has started to be checked.

Nippondenso, as a "flagship" employer, is not feeling the labour pinch as severely as smaller, second and third-tier suppliers, says Mr Ujie. These have begun recruiting Filipino and other external, mainly Asian labour – a course of action fraught with social and other problems and unlikely to be allowed to develop too far.

In north America, the first flush of success for some Japanese suppliers has faded. Gaining contracts from indigenous vehicle makers has proved more difficult than expected; workforces have usually proved less compliant and productive than their Japanese counterparts, and overall operating costs have often proved higher than hoped.

In Europe, growth prospects ought to be more limited than in north America, despite the region's higher total vehicle production.





Source: Motor Industry Research Unit

Partly this arises from the Japanese vehicle makers' commitment to use as many indigenous European component suppliers as possible in their "transplants", against the background of political tensions over the Japanese presence in Europe. Also, Mr Ujie acknowledges, it would reflect the fact that the European components industry is considerably stronger than that of north America. Finally, the complexity of the European motor industry, with many more large and medium size vehicle makers, is likely to make profits more elusive through lack of economies of scale.

There are nearly one and a half jobs for every available employee

In Asia, the inability of individual countries to agree on a co-operative approach to component manufacture, as a means of achieving competitive economies of scale, is also proving frustrating to Japanese suppliers.

Yet Mr Nobbie Nobumoto, chairman and chief executive of Akebono Brake Industry and president of the Japanese Auto Parts Industry Association, says that the Japanese industry, in the end, may have no option but to forge ahead with further overseas expansion – even if it is not justified by demand in local markets.

Such plants, he suggests, would achieve viability by shipping part of their production back to Japan to feed domestic vehicle plants – helping to lessen Japan's large balance of motor trade surplus in the process.

Even so, both Nippondenso and Akebono indicate that they do not expect a European presence on the scale that of the US. But then they were low key about the prospects for US entry, and already there are nearly 80 Japanese component ventures in Europe of various types. One of the latest, and largest, is a £65m plant to produce air-conditioning systems being set up by Nippondenso at Telford, Shropshire, in the UK, in which Italy's Magneti Marelli, part of the Fiat group, is a minority joint venture partner.

Certainly, physically coping with demand from its Japanese vehicle-making clients is likely to be an increasingly onerous – if profitable – problem for the components industry for the foreseeable future, because there remains the scope for a great deal of growth in Japan's own vehicle market. This arises not only from Japan's continuing fast economic growth and consequent rising disposable incomes, but from the fact that Japan still has only around half the number of cars per capita as the most affluent western nations.

As in Europe, the highest value-added components business is mainly in the hands of large companies with substantial in-house research and development resources.

But the levels of R&D spending among Japanese component makers tend to be much higher than their European counterparts, typically 6-8 per cent of sales and in a few cases, such as Hitachi on electronics activities, 10 per cent of sales.

It is typical of the industry's attitude that, with the sharp new focus on alternative vehicle materials, Nippondenso on December 1 inaugurated at its Kariya headquarters near Nagoya a major research centre devoted specifically to plastic composites and other new materials.

Despite large productivity and efficiency strides in recent years, a relentless drive continues to pare costs although, says Mr Ujie, "we do not think of it as pressure from the vehicle makers. It's a continuing, day-to-day process which has to be kept up as part of our overall competitiveness."

John Griffiths

Pressure from Japan on a weak US market

The surplus capacity

TOYOTA'S ANNOUNCEMENT a month ago that it plans to spend around $800m to double the capacity of its US car plant at Georgetown, Kentucky, could hardly have come at a more telling moment for the US motor industry.

It illustrates in the harshest terms the contrasting fortunes of the leading Japanese and north American car makers. Toyota's expansion comes at a time when the signals from the traditional domestic US car producers are almost universally gloomy.

Ford has recently warned that it expects a loss in the final quarter of the year. It has faced mounting losses from its domestic auto business as the US car market has weakened further and the costs of its buyer incentive programmes have risen.

The overall US car market has declined again this year, and the auto industry expects a further fall in 1991. Mr Philip Benton, Ford Motor president, warned this month that the company could cut its US white-collar workforce by up to 7 per cent in the next year. "Profits are under enormous pressure in the north American market ... no-one in his right mind would go into the car business in north America," he said.

General Motors, still the world's biggest vehicle maker, was forced to announce last month a $2.1bn special charge against its third quarter earnings for a restructuring programme that includes the closure of least four US plants and provision for the closure of additional north American plants and warehousing operations. As a result it recorded a net loss of $2bn for the third quarter.

The relentless Japanese challenge is one of the biggest factors behind the pressure now being exerted on the traditional big three US producers, GM, Ford and Chrysler. The focus of the Japanese effort to build a global car production base may now have turned towards western Europe, but to date it is the US domestic producers that have borne the brunt of Japanese competition. Cars have started to roll in increasing numbers off the lines of the Japanese assembly plants developed in North America during the second half of the 1980s.

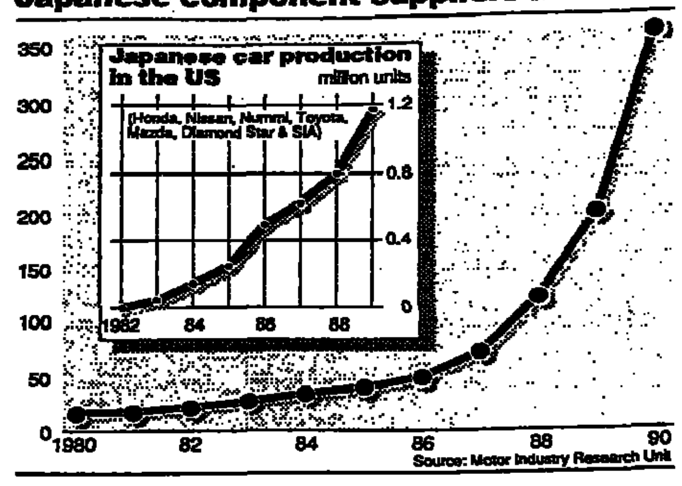
The development of the Japanese presence in the US has taken on awesome proportions. Japanese-badged cars captured 27.3 per cent of the US new car market in the first half of the year. The total share of Japanese-derived cars in the US already exceeds 30 per cent, as GM, Ford and Chrysler also market under their own brand names cars supplied either from Japan or from the so-called Japanese transplants – assembly plants based in the US.

The transplants, including joint ventures with US car makers such as NUMMI (Toyota/GM) and Diamond Star (Mitsubishi/Chrysler) accounted for 21 per cent of total US car output in the first six months of 1990 compared with only 14.8 per cent a year earlier. While total US car output in the first half declined by 16.8 per cent to 3.19m, production by the Japanese transplants jumped by 17.8 per cent to 669,000.

Last year a Japanese car, the Honda Accord, was best-selling car in the US, and both Honda and Toyota are threatening to oust Chrysler from third place in the US car market.

GM, the stumbling giant of the world auto industry and still the world's biggest vehicle maker, has been the major casualty in the US auto market of the last decade, despite a $77bn investment effort in the 1980s that has been poured into re-equipping and rebuilding plants – often with the most advanced but untried technologies – and into developing new models.

Mr Bob Stempel, who took over as chairman and chief executive of GM last month from Mr Roger Smith, faces a daunting task in the world auto industry as he seeks to halt the slide in GM's US car market share from 46.3 per cent in 1979 to 34.7 per cent in 1989.



Source: Motor Industry Research Unit

The total production capacity of the Japanese transplants in north America could exceed 2.5m vehicles a year by 1992.

A year ago new plants built by Subaru and Isuzu (in a joint venture) in Indiana and by Honda in Ohio started up production. They followed the start-up in the spring of 1989 of Suzuki's joint venture plant with GM in Ontario, Canada, two plants were started up in 1988 by Toyota in Kentucky and in Ontario, and a joint venture plant developed by Mitsubishi Motor with Chrysler in Illinois. Mazda began output three years ago in Michigan.

For good measure South Korea's Hyundai opened its first north American production plant in Quebec at the beginning of last year.

The start-up of the second wave of so-called Japanese "transplants" (local production overseas) comes in addition to the plants already in operation in the early and mid-1980s, when Honda began production in Ohio and in Ontario, Toyota began a joint venture with General Motors in California, and Nissan began producing in Tennessee.

This first generation of plants are already being expanded, for which Toyota's recent move is only the latest example.

Nissan is spending another $490m virtually to double its US production capacity by 1992. Toyota is spending $200m to add extra capacity of 100,000 pick-ups a year in California.

The bald list of assembly plants tells only part of the story, however. As vehicle assembly grows, the car-makers are adding engine plants and transmission production could follow.

The rapid build-up of new assembly capacity on this scale does not necessarily mean that it is boom time for the US components suppliers, however. More than 150 Japanese automotive components companies are already producing in the US, and industry estimates suggests this figure could have doubled to more than 300 by the early 1990s.

The impact of all these expansionary Japanese moves on the US producers and the rest of the world auto industry is clear. According to Mr Harold Poling, Ford chairman and chief executive, "planned additions to capacity, particularly Japanese plants in north America and Europe, as well as new Korean plants, are expected to result in excess worldwide automotive capacity of some 9m units by the early 1990s – over 20 per cent more cars and trucks than the consumer will demand. Overcapacity of this magnitude means we will be facing a brutally competitive environment worldwide."

Toyota's move in Kentucky will double the capacity of its Georgetown plant to 400,000 a year. Currently Toyota produces 200,000 Camry saloons a year at Georgetown, plus 100,000 smaller Corolla models at New United Motor Manufacturing (NUMMI), a joint venture operated with General Motors in California. NUMMI produces a further 100,000 Toyota-derived cars per year which are sold by GM through its own dealerships as the Geo Prizm. From next year NUMMI will also start producing 100,000 Toyota-based pick-ups annually.

Not all of the Kentucky output is sold in the US, however. About 10,000 units a year are currently being shipped to Taiwan, and 40,000 a year are due to be exported to Japan starting in late 1991.

Construction is to start in spring of next year, with the first cars due to come off the line at the end of 1993. The $800m investment will bring to nearly $2bn the total invested by Toyota in the Georgetown plant, which was first established in 1986 and which is operated by a wholly-owned Toyota subsidiary, Toyota Motor Manufacturing (TMM).

Toyota's aim is to reach at least 75 per cent US content for the cars. Camrys currently produced at Georgetown are said to have 65 per cent local content. Toyota claims that since production first started at Georgetown in 1988, purchases of US parts and materials have risen sharply and will total more than $700m a year by the end of next year.

The Japanese effort in north America is increasingly moving into a new phase with investments in engineering and development resources as well as in assembly capacity. In addition to the the Georgetown project Toyota has announced a $144m expansion of its research and development facilities in California and Michigan. It is also to build what is claimed to be one of the world's largest vehicle proving grounds, in Arizona.

Kevin Done

Profile: AKEBONO BRAKE INDUSTRY

Joint ventures may be in sight

LAST YEAR Akebono Brake Industry celebrated its 60th anniversary. Starting in Tokyo as a very small maker of brake and clutch linings, it has become Japan's largest brake components group – even supplying the brakes for Japan's *Shinkansen* (bullet train), writes **John Griffiths.**

Its sales of Y86.4bn ($670m) last year were achieved in over 60 countries, and the company provides a good example of a Japanese component supplier already successful in establishing a significant presence overseas through a mixture of joint ventures – including General Motors of the US – foreign affiliates and technical licensing agreements, including ones with Robert Bosch of Germany and Valeo of France .

Viewing the global components situation from his downtown Tokyo office – and the perspective of an industry veteran – Akebono's chairman and chief executive, Mr "Nobbie" Y. Nobumoto, leaves little room for doubt that much of the Japanese industry's expansion must come from overseas in the face of its domestic labour shortage problems which, he asserts, are leading to profitability "taking a hammering".

Akebono already has six factories in Japan, and a seventh is due on stream shortly.

Thereafter, he indicates, Akebono will look both to north America and Europe for its further expansion.

"Our strategy is likely to involve making more products in north America and Europe, and shipping some of it here so that we can progress towards reduced working hours in Japan." A maximum working year of 1,800 hours is the objective of the Japanese government – a sharp drop on the 2,200 which, says Mr Nobumoto, is effectively industry practice now.

Though more than 300 Japanese component suppliers have set up shop in the US, most parts companies are still based wholly in Japan. Partly, this reflects the differing structure of the Japanese component industry from most of those in the west – Japan has thousands of small second and third-tier components groups which feed into the large components groups such as Nippondenso and Akebono, rather than directly into vehicle producers. European car makers have three or more times the number of suppliers of Japanese vehicle manufacturers.

Mr Nobumoto, a "father figure" of the Japanese components world who is also president of its industry association, says his "personal feeling" is that many of the Japanese suppliers' problems in the US have been self-inflicted.

"Toyota, Honda and so on went into the US and everyone (the component makers) thought they had to follow. So they went in without making proper studies; tried to sell to GM but couldn't and found that it was not so simple. The Japanese transplants themselves could not provide the suppliers with adequate economies of scale."

Akebono, through Ambrake, its GM joint venture, and other companies following a similar route will be "OK", he suggests, using access to the US "big three" domestic producers to build on their transplant business.

Akebono is already moving further. It has recently set up in Detroit a research and development centre to assess the needs of, and develop product specifically for, north American customers. It is discussing supply possibilities with Ford and Chrysler.

In Akebono's case, the question of using overseas bases from which to supply Japan is no longer hypothetical: it is currently importing 100,000 brake pad sets a year from its US plant for the Japanese replacement parts markets, as well as brake materials. "In future, more still will be made in the US. Costs will come down, despite those involved in shipping. It all depends on currencies, of course – but in fact multi-sourcing spreads risks."

Although Akebono has a small European office, in Paris, it has yet to decide in what precise form its European presence will be established.

Penetrating the European market, he insists, will be much more difficult than the US. "There are some very strong brake manufacturers there, all the customer relationships are very strong and will continue to be strong. I personally feel that we will not be able to have our own factory in Europe without tying up with somebody – not necessarily a brake manufacturer – who knows Europe better than we do".

'It all depends on currencies – but multi-sourcing spreads risks'

Presuming that tie-up is made, Mr Nobumoto says he believes that "the key with which we will unlock Europe is product development and engineering." Given Akebono's track record and its proclaimed determination to concentrate efforts on "getting an edge" on quality and technology, Mr Nobumoto says he expects approaches from European component makers on joint ventures, rather than Akebono having to sell itself.

Already, he claims, "one top European vehicle maker has told us that while it could not forget past relationships with European suppliers, if Akebono can come up with better then it is ready to buy."

That in itself, he acknowledges, will not be easy. European vehicle speeds are very much higher than in Japan or North America, he points out, and the demands made on brake systems much tougher. He makes clear, however, that Akebono will not be the slightest bit reluctant to set up a European research and development centre in pursuit of business, as it has already done in north America.

Deciding precisely where to go is seen as problematical. There is the obvious attraction of the UK because of the Japanese car manufacturing presence. With Volkswagen taking over Skoda of Czechoslovakia and its expansion into east Germany, that region has attracted Akebono's interest – but overall it shows little enthusiasm for eastern Europe, because of what Mr Nobumoto describes as "technology problems".

Nor does he share much of some other component makers' enthusiasm for south-east Asia. Experience to date, he says, has shown that technology transfer has been both very expensive and "very hard work".

Akebono's likely role for the immediate future is to make licence arrangements and provide guidance to local component makers. But he suggests that component supplies, initially, may be limited to locally made cars.

As for Akebono's potential range of future activities, nothing in terms of diversification appears to be ruled out, from biotechnology to the development of new materials.

For precisely that reason, says Mr Nobumoto, Akebono has 350 research and development staff, plus 50 in an independent technical centre.

Ashley Ashwood

Toyota cars awaiting loading onto a ship at the Toyota Nagoya wharf centre

Nissan Primera. Compare this to what you call performance.

Nissan announces the Primera.

A car that has spent the past several years as the centre of attention of test tracks, windtunnels and test teams across Europe.

A car that was in fact built for only one, much more important, test.

You are that test (in fact you could say, the Primera was built to be compared).

Let's start with the engine compartment and take the Primera's performance as an example.

Firstly you notice that every gasoline powered Primera model is equipped with a 16 valve DOHC engine designed to take up less space and deliver more power.

This means we can offer you the following numbers for comparison.

The Multi Point Injection 2.0E engine: 150 hp and a top of 220 km/hr. The Single Point Injection 2.0i engine: 115 hp and a top of 200 km/hr.

WARRANTY 3 YEARS OR 100.000 KM

The completely new Multi Link Front Suspension system ensures incomparable roadholding, on byways and highways, be they pebbly or asphalt smooth.

The sophisticated aerodynamic exterior design contributes to a low cd-value and a high resistance to side-winds.

However, the Primera was not created merely as a technical advancement over other cars. Its comfort, its styling, its quality- all are designed to stand up to your scrutiny.

As you realise as you take a close look at its interior.

And as soon as you sit back and think about the bumper-to-bumper 3 year warranty we give you.

And your comparison is not only true for the four door sedan but also for the five door hatchback and station wagon.

There now seems to be only one question left unanswered: when would you like to compare the Primera?

NISSAN

Nissan Primera.
The new performance car for a country called Europe.

THIS MODEL IS A NISSAN PRIMERA GT. ALL SPECIFICATIONS MENTIONED ARE BASED ON THE MODEL SHOWN AND SUBJECT TO POSSIBLE CHANGES.

Germany could have a surplus on its motor industry balance of trade with Japan

Path cleared for western car importers

FOR GERMANY, at least, the unthinkable is about to happen – a surplus on its motor industry balance of trade account with Japan.

Mr Michael Bassermann, president of Mercedes-Benz's wholly-owned Japanese importer, is careful to say that the car market slowdown Japan has experienced in the past couple of months might still prevent the surplus being achieved.

However, the gap was down to $500m in 1989 – Japan's $3.3bn in motor exports to Germany comparing with Germany's $2.8bn to Japan – and German cars have continued to make significant market gains this year.

Most Japanese industry analysts also perceive the sales hiatus to be a hiccup related to Gulf crisis uncertainties and the sharp jump in oil prices which, in Japan's case, has already been almost wholly reversed.

And, overall, Japan's economy continues to grow rapidly, with a phenomenal 6 per cent rise in GDP expected for this year.

The position is by no means as strong for other western car importers to Japan. Between them Mercedes, BMW and the Volkswagen/Audi group accounted for 67 per cent of the 180,000 imports sold in Japan last year, and the German companies have been the spearhead of import penetration.

Nevertheless, virtually all the importers are enjoying sales increases in leaps and bounds.

Several main factors are at work:

■There has been remarkable growth in Japan's new car market overall, from 2.7m in 1981 to 3.61m last year and an estimated 4.4m in the current year. These figures exclude Japan's unique "minicar" sector, for vehicles under 650cc and of which around 1.75m are likely to have been sold this year.

■There have been a number of market-opening measures by the Japanese government which have eliminated most – some think all – of the non-tariff barriers which so exasperated western trade officials for much of the 1970s and early 1980s, and which even as late as 1985 were seen as a definite factor in keeping importers' share of the Japanese new car market down to 1.7 per cent that year.

■There has been active promotion by the Japanese government of "import now" campaigns in a belated bid to reduce trade friction, and with which Japan's 100m population has moved willingly to comply.

Rapidly growing per capita income has coincided with land and property prices soaring even faster, making it hard for people to buy property. Many people are consoling themselves with luxury purchases, of which cars are at the top of the list. If proof were needed, it is Mercedes which is leading the league table of imported car sales.

Not least, increasing "choosiness" is being displayed by an ever more sophisticated consuming public. Car companies acknowledge that a substantial part of current demand derives from young people, many of them well-travelled, who like the perceived style and chic of foreign cars – even if, in reality, these cars are likely to be higher priced, more inconvenient and expensive to service and ultimately less reliable than equivalent home-grown products.

The overall effect has been to lift demand for imported

THE MAIN IMPORT DEALER NETWORKS

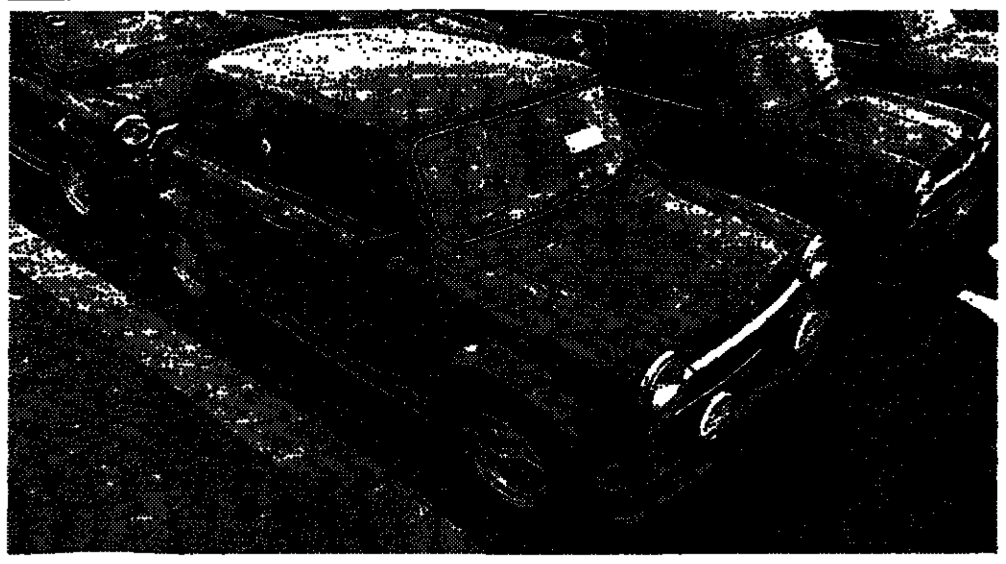
Country	Manufacturer	Importer	Sales Outlets*	
GERMANY	VW/Audi	Yanase†	505	135
GERMANY	Daimler-Benz	Mercedes-Benz Japan#	171	
GERMANY	BMW	BMW Japan#	120	7
GERMANY	Opel	Isuzu Motors, Toho Motors	144	
GERMANY	Porsche	Mizwa Motor	23	4
UK	Rover Group	Rover Japan#	105	4
UK	Jaguar/Daimler	Jaguar Japan	22	3
UK	Rolls-Royce	Cornes	5	5
FRANCE	Peugeot	Rover Japan, Suzuki†	393	
FRANCE	Citroën	Seibu Motor Sales, Mazda	273	
FRANCE	Renault	JAX	88	29
ITALY	Fiat	Summit Motors Japan	85	1
ITALY	Lancia, Autobianchi	Mazda	700	
ITALY	Alfa Romeo	J Osawa	28	3
SWEDEN	Volvo	Volvo Japan	116‡	18
SWEDEN	Saab	Seibu Motor Sales	146	15
US	GM	Yanase, Suzuki	668*	
US	Ford	Mazda and others	294	
US	Chrysler	Chrysler Japan Sales	51	4

* Includes directly managed outlets (last column). † VW-Audi Nippon and Peugeot Japan plan to take over their import functions but will sell through the outlets indicated above for the time being. # Wholly-owned importers. ‡ Plus 18 or more Subaru dealers which sell, but do not import, Volvo cars. * Plus 14 Isuzu dealers which sell, but do not import, GM cars. Source: Japan Automobile Importers Association

DOMESTIC PRODUCERS' IMPORT DISTRIBUTION

Foreign carmakers/Japanese subsidiaries	Import models handled
MAZDA	
Mazda Motor Manufacturing US	Ford Probe
Ford (US)	Taurus, Thunderbird, Continental
Kia (Korea)	Ford Festiva 5
Fiat (Italy)	Lancia/Autobianchi
Citroën (France)	Citroën
ISUZU	
Opel (Germany)	Senator, Omega, Vectra
GM (US)	Camaro, Corvette, S-10 Blazer, Chevy G20RV, Grand Am, 2000GT, 6000SE, Firebird Transam, Bonneville, Regal, Ninety-Eight
Lotus (UK)	Lotus
SUZUKI	
GM (US)	Corsica/Beretta, Grand Am
PSA (France)	Peugeot 205/309
MITSUBISHI	
Diamond Star Motors (joint venture with Chrysler)	Eclipse
Daimler-Benz (Germany)	Mercedes-Benz
Mitsubishi Motors Australia	Magna Station Wagon
FUJI (SUBARU)	
Volvo Japan	200/700 series
HONDA	
Honda of America Manufacturing	Accord Coupe
NISSAN	
Nissan Motor Manufacturing (US)	King Cab (4WD truck)
TOYOTA	
Toyota Motor Manufacturing (US)	Camry (from 1992)

Source: manufacturers' announcements



Young Japanese are prepared to spend heavily on imported cars which they regard as chic and sophisticated. These Mini Turbos from ERA, a specialist manufacturer, cost £12,000 in the UK and are being sold through Rover's outlets in Japan. Some 300 of them are being delivered to Japan this year

cars from 50,172 in 1985 to an expected 230,000 this year – up 25.5 per cent on a year ago, although still only just over 5 per cent of the market.

(Intriguingly, however, Mr David Blume, Rover's marketing director, says that in Tokyo itself the share taken by

The new car market has grown from 2.7m in 1981 to about 4.4m in the current year

imports stands at more than 10 per cent – a trend which may yet ripple out into other cities and rural areas.)

Mercedes itself provides one of the best examples of the meteoric growth being enjoyed by importers. In 1986, when Mercedes-Benz Japan was established it sold 13,820 vehicles. Last year it sold 31,511 and this year, says Mr Bassermann, sales will top 37,000 for the company to become the top-selling importer. By the mid-1990s Mercedes is aiming for more than 50,000 sales a year and at least 10 per cent of the imports market.

Crucially, the major importers, grouped within the Japanese Automobile Importers Association, say they believe that the imports wedge is now firmly in place and that it can be hammered further in to reach 300,000 sales a year within three years and 10 per cent of Japan's total car market by the mid-to-late 1990s. The latter figure excludes both imports from Japanese transplants overseas and cars from newly industrialising countries.

Japan is already the world's third largest car market. However, it has the potential for much more growth, because it has only around 43 per cent the number of cars per head of population as the US, and about 60 per cent that of west Germany.

So provided the government does something about Japan's woefully inadequate roads infrastructure (unless it does, the frustration factor could act as a depressant on demand), some analysts say the market could reach as much as 6m by the late 1990s.

If forecast translates into reality, that should mean over ½m sales per year for imports – and in those circumstances, it is easy to see why investment in the Japanese market by western manufacturers has begun to rise dramatically.

Mercedes, Volkswagen, BMW, the UK's Rover Group and others are embarking on building new headquarters, import and training centres on a scale difficult to envisage even two years ago.

Mercedes, for example, is spending DM300m on new vehicle importing and preparation centres.

Volkswagen/Audi is spending DM300m on similar facilities, following a path already taken by BMW.

Rover Japan, a wholly-owned subsidiary of the UK cars group in which Honda has a 20 per cent stake, next year will move into an impressive new

Property prices have soared so people buy luxuries such as cars as a consolation

11-storey headquarters in Tokyo as a token of its own faith in a viable future inside Japan.

Not without reason: as Mr Blume points out, Rover and Land Rover vehicle sales have climbed from 1,807 in 1985 to reach 11,218 last year and are heading for a 40 per cent increase in 1990. The figures exclude Peugeot sales, which Rover is also handling until Peugeot brings into operation its own network. Rover sold 2,332 Peugeots last year and has almost doubled its dealer network since 1985 to 118 dealers. Two-thirds have found the franchise sufficiently attractive to be selling Rovers exclusively.

A concerted effort is going on among all the importers to strengthen dealer networks throughout Japan, in terms of both sales and service outlets. This is being tackled in a number of ways.

■Independent dealers in domestic cars increasingly are exercising their right to dual franchise with an imported make.

■The specialist import houses which used to handle almost all the cars imported to Japan continue to play a role, but a decreasing one as an increasing number of manufacturers set up their own wholly-owned import subsidiaries and organise separate dealer networks.

To take an example, last year VW-Audi Nippon was set up as a wholly-owned subsidiary of the German car maker. It will take over the import function from its Yanese & Co importer in 1993 and set up its own single franchise network. Mercedes presently sells through some 165 Yanese outlets, but is creating additional channels through the formation last year of a joint venture with Mitsubishi Stuttgart Auto service to create the Stern dealer chain, of which there are currently 30 but with the intention to increase to 80. It is also exploring ways of employing Mitsubishi dealers where there might still be open points in the Mercedes network.

Rover Group has been developing its network of independent, single franchise dealers since 1983. However, it also operates four large dealerships of its own, two in Tokyo, one in Osaka and one in Yokohama. For some time, these outlets did not make money at the trading level, but were regarded as necessary standard-setting "flagship" outlets to create the image that Rover's presence in Japan was to be taken seriously. Now, says Mr Blume, "they can make money."

Rover's main Tokyo outlet will sell about 900 cars this year – well over the threshold of viability.

The rising sales volumes mean, says Mr Blume, that the group's independent dealers, some selling 200-300 units a year, are now generating the kind of sales volumes which should allow increased investment in premises and service standards as part of a "virtuous circle" upgrading Rover's overall image.

Another important development at dealer level is the forging of co-operation agreements between foreign manufacturers and some prominent Japanese trading companies.

Fewer cars per head than the US or west Germany, but inadequate roads

So far, at least, Japanese manufacturers' upward move into the luxury car sector with models such as Toyota's Lexus and Nissan's Infiniti range – which have hit Mercedes and BMW sales in North America – have had little effect on the German companies in Japan itself. This is despite the fact that a Lexus 400 sells for little more than one-third of the Y14.6m price of a Mercedes 560 SEL. On the contrary, asserts Mr Bassermann, the Japanese cars are helping Mercedes by increasing overall luxury car sector awareness.

If indigenous Japanese producers are concerned about losing 10 per cent of their domestic market to importers, they show little sign of it. Indeed, in recognition of diversifying consumer demand, they are forming joint ventures of their own with overseas counterparts to import and distribute cars, even if some of the arrangements are to bring in vehicles from Japanese-owned "transplants" in North America and Europe.

However, Mr Yoshio Komiya, senior managing director of Toyota's showcase Amlux centre in downtown Tokyo is not so sure – and neither are other senior Japanese car executives – that the importers can expect to win a 10 per cent market share without a very hard fight.

Mr Komiya is fairly dismissive of some import quality standards, service and other after-care, and wonders whether Japanese customers, in the long term, will stand for any shortfall once the novelty of owning imported cars wears off.

Not surprisingly, that view is not shared at Mercedes. Mr Bassermann acknowledges that "unless the product comes with a precisely tailored concept, there is a danger that it will be buried by the competition from many excellent Japanese cars. But I believe that as long as we can instil into the consumer a proper understanding of each individual product, and provided that we can establish a comprehensive service system, we can overcome the competition."

One thing seems clear, however: while the west's importers might still have a hefty thicket of Japanese customer preferences, prejudices and other subjective aspects to hack through before being assured of long-term market success, they can no longer claim that any serious legislative or regulatory barriers stand in their way.

Since 1986, there has been a steady dismantling of the discriminatory practices hindering imports. The streamlining of motor vehicle certification systems, adoption of international standards and taxation reforms coupled to a government programme for the acceleration of imports in 1985 have had a cumulative effect.

A particularly important development came in April last year, when prices of new cars of over 2 litres – which accounted for 46 per cent of last year's imports – fell sharply as a result of the replacement of commodity tax on luxury and high-priced goods by a new consumption tax, plus a restructuring of Japan's annual automobile tax.

The changes in effect reduced the prices of such cars by around 10 per cent.

Finally, changes to vehicle insurance regimes by the Automobile Insurance Calculation Association of Japan in 1988 brought to an end one of the last blatant discriminatory practices. Before the revisions, insurers were demanding up to three times as much in premiums for imported cars as their domestic equivalents, on the grounds that parts and repairs for imported cars cost more. Mounting protests from abroad led to all premium distinctions between imported and domestic cars being removed.

"In short", says Mr Bassermann, "we consider the Japanese car market completely free".

His sentiments, however, are only partially endorsed by Rover's Mr Blume. He still maintains that importers tend to be treated as second-class citizens when it comes to the dissemination of government information on legislative changes or other factors which could affect the market. "The ministries just forget we exist," he complains. Nevertheless, in most technical and other respects, the Japanese market is approaching "a level playing field", he acknowledges.

However, he takes a somewhat more cynical view of developments in the market-place than some others. "It will pay Japan handsomely to admit 10 per cent imports," he suggests. "It won't mean a

"In most respects, the domestic market is approaching a level playing field"

damn thing in terms of Japan's own production, since the market is growing by 1m units. And by trying to create the impression of more balanced trade, it may help keep political doors open in Europe. It's all *quid pro quo*."

Even so, Rover is taking a buoyant view of its own prospects in Japan, expecting sales to rise to between 25,000 and 30,000 cars a year.

In one highly ironic respect, the relaxation of import restrictions has actually created problems for some importers.

According to Mr Bassermann, 30 per cent of Mercedes' sales in Japan are now being made through private "grey" importers. This is because the rules are now so lax that, provided no more than 10 cars are shipped in at a time, "grey" imports are not subject to any certification procedures.

As Mr Bassermann acknowledges – after the west's long chorus of demands for Japan to loosen its import rules, Mercedes can hardly asked now for them to be tightened up again.

John Griffiths

SEVEN YEARS OF IMPORT GROWTH

	1984	1985	1986	1987	1988	1989	1990†
Imported car sales	41,982 (+19.0%)	50,172 (+19.5%)	68,357 (+36.2%)	97,750 (+43.0%)	133,583 (+36.7%)	180,424 (+35.1%)	230,000 (+27.6%)
Japanese car market*	2,902,008 (-1.2%)	2,943,066 (+1.4%)	3,007,768 (+2.2%)	3,147,932 (+4.7%)	3,563,932 (+13.2%)	4,011,265 (+12.5%)	4,400,000 (+9.7%)
Imported car market share	1.4%	1.7%	2.3%	3.1%	3.7%	4.5%	5.2%

* Includes imports and excludes midget cars with engines 550cc and under (660cc, as of 1990) † Estimate Source: JAMA and Mercedes-Benz

RESEARCH AND DEVELOPMENT

From copier to innovator

IN CONTEMPLATING Japan's motor industry, western vehicle makers must sometimes feel like King Canute who, enthroned at the sea's edge, defied the tide to engulf him, with unfortunate but entirely predictable results.

Nowhere is the relentless rise of Japan's car industry more amply illustrated than in its research and development activities, the breadth and depth of which have assumed daunting dimensions.

The industry which already requires, on average, less than half the time to build a car that its west European rivals need, is throwing a huge R&D effort into further improving the organisation and technology of manufacture to reach new levels of flexibility and productivity, with reduced costs.

At a time when western vehicle makers are enjoying a "honeymoon" period in the – belatedly opened – Japanese market, relying for much of their sales appeal on the perceived chic of being "foreign", Japan's car-makers are adopting a more rigorous, long-term approach to product planning for west European and north American markets.

In June, Mazda opened a Y5bn ($40m) R&D office in the European industry's heartland near Frankfurt. Under its director and general manager, Mr Seiji Tanaka, it will probe the nuances of European car taste and styling and design and develop products and strategies specifically attuned to them.

Yet the Mazda facility is only among the latest of a series of such centres already set up in Europe and the US by Toyota, Nissan and Honda. Cars currently produced at their "transplants" in north America and, in the case of Nissan, the UK, have already begun to reap the benefit of work done at these centres, with suspension, brakes, ride, handling and detailed styling "tuned" to local markets. In the longer term, entirely separate models from those produced in Japan are expected to roll off "transplant" production lines.

In terms of cars of the future, having set the world standards on quality, Japan has been moving swiftly from copier to innovator.

Even though the results to date are mixed, with some proclaimed advances such as four-wheel-steering encountering a muted response in the marketplace, it is the thoroughness with which Japanese car-makers and their component suppliers are addressing all the opportunities presented by electronic and new materials innovation which sets such a formidable task for western producers to match.

There are two other crucial consequences from this breadth of R&D effort.

One is the reduction of new model development times to currently four years or less, compared with five at least for western counterparts. The Japanese goal is to cut these times further, to between two and three years, by the mid to late 1990s.

The other consequence, related and made possible by the adoption of flexible "lean" production techniques, is the ability to produce an ever-wider variety of vehicles viably at ever-lower volume threshholds.

A prime example is provided by Japan's largest vehicle maker, Toyota. Reaping the benefit of R&D spending which exceeds $2bn annually, Toyota now produces some 60 different car types, two-thirds more than the worldwide operations of Ford.

And while General Motors, Ford and Chrysler struggle to retain profitability, manufacturing and other efficiencies continue to underpin further the financial strength, and hence R&D resources, of the leading Japanese producers.

Western producers, frustrated at their ongoing inability to close the productivity gap, now recognise that much of this efficiency derives from the manner in which the Japanese industry organises its production. The most flexible of all "robots", Japanese managers tend to point out, is human.

But that has not stopped the Japanese companies from exploring every technological avenue for further improvements.

Again, Toyota provides a salutary example.

One of the largest single costs in developing a new vehicle for production is that of manufacturing the dies used for pressing and stamping the often complex sheet metal components of the body. The machining of the dies is profoundly complicated, and Toyota has been among the industry leaders in using five-axis computer controlled machining centres to reduce the required times, and hence costs, substantially.

This year, however, it has unveiled another example of technological lateral thinking that promises to take a further huge slice of costs off these key processes. Instead of pressing the sheet metal between conventional male and female steel dies, it has begun using as the female die ... water.

The male die stamps the metal sheet into a water "bath". Because the water, trapped in a confined space, will conform itself exactly to the shape of the male die, the accuracy of parts produced in this way is better than that of the conventional system, because unlike a female die the water will not "wear" with repeated pressings.

Not least, however, the system means that only one die per pressing is needed, producing an automatic cost saving of 50 per cent.

The snag with the process is cycle time. Currently it is considerably longer than the second or two of a conventional press transfer line. But it is already suitable for low-volume vehicle applications and Toyota has no doubt that a substantial reduction in the cycle time of the water system is feasible with further development.

The swift rise in global concern about the environment, coupled with the sharp reminder of oil price volatility provided by the Gulf crisis, inevitably is thrusting development of the environmentally "friendly" car and greater fuel efficiency to the top of the R&D agenda.

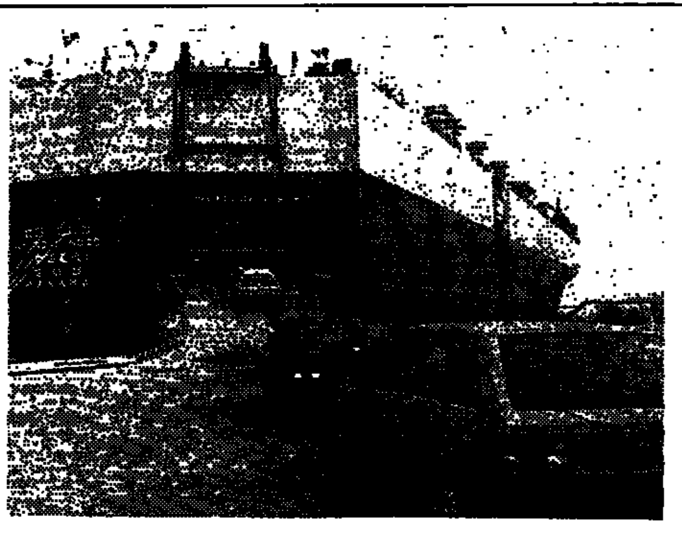
The former, stresses Mr Shigenori Fukuda, director and general manager of Mazda Motor Corporation's design division, must include the ability of vehicles to be virtually completely recycled at the end of their working lives. To that end Mazda, like all other major Japanese producers, is conducting intensive research into the application of new materials such as thermoplastics.

Safety, too, suggests Mr Fukuda, is climbing up the league table of priorities. The old motor industry adage that "safety doesn't sell" is rapidly losing its validity under the pressure of increasing traffic congestion and mounting road casualties.

Like Mr Nagayuki Marumo, executive managing director of Nissan's research and development centre at Atgugi, Mr Fukuda believes that some of the most useful electronics technology for the car of the future will take the form of navigation and guidance systems, within what has come to be known as an "intelligent" car in which most of the systems – from engine management, through suspension and steering – are computer-controlled.

Such navigation systems have a contribution to make which extends far beyond mere convenience for motorists. Studies within the European "Prometheus" motor industry research project have established unequivocally that delays caused by traffic congestions cost the region tens of billions of dollars annually. Pollutants from exhaust emissions are increased substantially as a result of journey times being significantly prolonged.

John Griffiths



Hyundai Excels for the US are loaded onto a company ship

An issue to be resolved before the advent of the single market

Car quotas cause friction

IN THE preparations for the European Community's single market, no issue has proven more intractable, more time-consuming or potentially more explosive than the attempt to formulate a policy on Japanese car sales in the EC after 1992.

In marked contrast to other trade disputes involving the EC and Japan, the biggest frictions have arisen not between Brussels and Tokyo but in the Community's own ranks, as it has struggled vainly to coalesce around a common negotiating position.

Furthermore, the consequences of a failure to resolve the issue could be at least as serious for the EC as for Japan. At best, they would mean continued segmentation of the European car market; at worst, a bruising political showdown between Brussels and several EC governments.

The problems arise from long-standing quotas on Japanese car imports in the UK, France, Italy, Portugal and Spain. Brussels judges these to be incompatible with the removal of internal border controls as they can be enforced only by limiting transshipments of Japanese cars from unrestricted EC markets such as Belgium or Germany.

The Commission says it favours free trade in cars. But rather than simply declaring the five countries' quotas illegal, it has proposed that their removal be followed by a transitional period of voluntary restraints on Japanese car sales in the EC.

The approach calls on the Japanese to monitor their shipments to the restricted coun-

Car-makers accused Brussels of giving all the growth away

tries after 1992, to ensure that sales do not exceed levels to be agreed with the EC. Such a system has been endorsed in principle by all 12 EC governments and by Japan. But in practice, the harder the Commission has tried to define detailed arrangements for implementing it, the trickier it has become.

The task has been complicated further by the weakening of the European car market, after four years of record sales. That has contributed to a hardening of positions in the industry with Mercedes-Benz of Germany as the only large manufacturer still publicly taking a free trade line.

The governments and main car-makers of France and Italy have also escalated their demands. As well as seeking to protect their national markets for as long as possible, they have been pressing Brussels to exact from Japan promises of trade "reciprocity" on a wide range of products.

The EC's internal deliberations have encountered three principal areas of difficulty:

■The length of the transition period and the permitted growth of Japanese car sales. No firm proposals have been made, while the Commission's efforts to provide a basis for discussion by projecting likely trends in the EC car market have stirred further dissent.

In a paper last autumn, the Commission estimated that by the end of this decade, Japan's share of EC sales would have almost doubled from 10.4 per cent to 18.7 per cent. However, these figures aroused angry protests from European car-makers, which accused Brussels of planning to give away to the Japanese all the expected growth in the market.

Recently, the heads of Fiat, Renault and Volkswagen have called for arrangements which would give the Japanese a smaller share of the overall increase in the market in years of slow sales growth than in strong ones.

■Output from "transplants". There has been strong pressure from some continental governments and car-makers to include production from Japanese assembly plants inside the EC in the proposed restraints. But that would violate both the EC's own laws and international trade rules, since such cars clearly qualify as Community products. Moreover, as host to assembly plants belonging to Nissan, Toyota and Honda, Britain has made clear that it would oppose any EC attempt to limit their output as fiercely as it did France's efforts to block imports of UK-made Nissans.

The Commission's response to this dilemma so far has been a classic bureaucratic fudge. While stating that Japanese cars assembled in the EC cannot legally be covered by the proposed restraints, it also said that transplant output must be "taken into account" when calculating future permitted levels of Japanese imports.

■Enforcement of the proposed restraints. Mr Martin Bangemann, the EC industry commissioner, is relying on the 10-year "block exemption" of the motor industry from EC competition rules to enable Japanese car-makers to control their sales on currently restricted markets.

The exemption allows car-makers to distribute their products exclusively through designated dealers. However, it contains a big loophole as it also permits "parallel imports" of cars from one EC country to another, either by individuals or by specialised intermediaries known as *mandataires*.

A surge in "parallel imports" would threaten the entire basis of the proposed restraints. Whether that is likely to happen may depend on the outcome of a court case between Peugeot and Ecosystem, a *mandataire* which imports Peugeot cars from Belgium into France at highly competitive prices.

In addition, Sir Leon Brittan, the competition commissioner, is unhappy about the EC taking steps which could impede competition in the single market by endorsing the maintenance of national barriers.

Finding solutions to these problems is likely to call for skilful diplomacy, technical ingenuity and a greater readi-

Even if the EC and Japan agree, delays seem inevitable

ness to make political compromises than the EC has shown to date. Continued stalemate could lead the Commission to challenge the legality of EC members' national quotas after 1992. That would threaten to poison the political atmosphere and could prompt some countries to resort to other types of action to keep Japanese cars out of their markets.

But even if the EC and Japan can agree on transitional restraints, they seem bound to involve measures which would delay the achievement of a true single market in cars until well after 1992. Furthermore, the benefits of such protection to the European car industry are questionable.

Some experts, such as the authors of a Massachusetts Institute of Technology study of the world car industry *(see below)*, fear that continuing to shelter European producers could retard, rather than accelerate, their adjustment to the challenge of highly efficient Japanese competition.

The MIT experts give a stark warning of just how much ground the Europeans have to make up: "The European auto industry is today, after a 50-year transition from craft production, the leading proponent of old-fashioned mass production – high volume, long product runs, infinitely fragmented work, 'good enough' product quality, enormous inventories, massive factories."

Guy de Jonquières

The Japanese gear up for European production

Battlefield of the 1990s

THE WORLD'S leading car makers expect Europe to be the battlefield of the 1990s. Much of the increased competition will come from the development of production capacity in Europe by leading Japanese car makers, writes Kevin Done.

Nissan, Honda and Toyota are already well-advanced with projects that will create a capacity for producing more than 500,000 cars a year in Europe by the mid-1990s.

At the same time Mitsubishi and Mazda are waiting in the wings, as they seek joint venture partners to ease their entry into local European production. On a smaller scale Suzuki is building small four-wheel drive leisure/utility vehicles in Spain and is planning to become the first Japanese car-maker to assemble cars in eastern Europe in a joint venture in Hungary.

Without the same fanfares Japanese vehicle makers, including Isuzu, Nissan, Toyota and Suzuki, are also establishing a significant local assembly presence in Europe for light commercial vehicles.

Significantly, the vehicle assemblers are being followed into Europe by a rapidly growing group of Japanese automotive components suppliers, led by companies such as Nippondenso and Calsonic, which are seeking to use the arrival of the vehicle makers as their own springboard into Europe. They are seeking business from both the Japanese transplants and from established European vehicle producers.

The component suppliers are choosing widely differing paths into Europe, including joint ventures, the building of greenfield site plants, acquisitions of existing suppliers in Europe and licensing deals.

According to a study by the Economist Intelligence Unit, Japanese car-makers are set to capture around 18 per cent of the western European new car market by 1995 compared with about 11.5 per cent this year. Internal studies by the European Commission suggest that virtually all the growth expected in the European car market during the 1990s could be taken by the Japanese producers.

Japanese car-makers have chosen the UK as the main springboard from which to launch a growing assault on the European market.

Honda's decision last year to begin car assembly in the UK was the dramatic culmination of a wave of UK investment by the three leading Japanese car makers, Toyota, Nissan and Honda which now totals some £1.81bn. The projects will create 8,250 direct jobs, and at least the same number in the automotive components industry.

As part of the Japanese offensive:

■Nissan is committed to building 200,000 cars a year at Sunderland by 1992-93. Output, which began in 1986, has reached around 76,000 this year, and is set to rise by 45 per cent to 110,000 cars in 1991.

■Toyota is committed to building 100,000 cars a year by late 1995, rising to 200,000 cars by 1997-98 at Burnaston, near Derby, but this timetable could well be brought forward.

■Honda is committed to building 100,000 cars a year by 1994 at Swindon in southern England, where it is already building engines.

The moves by Nissan, Toyota and Honda appear to guarantee that UK car output in the second half of the 1990s will exceed 2m cars a year (more than double the level of the first half of the 1980s) and by then Japanese car makers will account directly for around a third of UK car production.

In addition to building its own car assembly and engine plant, Honda has also taken a 20 per cent equity stake in the vehicle operations of Rover Group, further strengthening its 11-year relationship with the UK's leading car-maker. As part of the arrangement Rover has taken a 20 per cent equity stake in Honda of the UK Manufacturing (HUM), the Japanese group's British subsidiary, which will build and operate the £300m assembly plant at Swindon. Some of the production will be sold under the Rover badge.

Through its liaison with Rover, Honda is also having cars built under contract at the UK group's Longbridge, Birmingham plant. Output there of the Honda Concerto is planned to total 30-40,000 a year.

Nissan has already indicated its ambition to expand to a capacity of 400,000 cars a year in the UK by the late 1990s, and both Toyota and Honda are expected to expand significantly beyond their present publicly declared targets.

The three Japanese groups have agreed to reach at least 80 per cent local (European Community) content levels at their UK plants, and all plan to export between 50 and 60 per cent of their output to continental European markets. All three car manufacturers will also be producing engines in the UK.

It is already clear that the European transplants can also be expected to play a wider role eventually in the Japanese car-makers' global production networks.

Nissan is planning to export around 10,000 cars a year from its UK assembly plant to Japan and Taiwan, beginning next year, the first such move by a Japanese vehicle maker to ship cars from Europe to Asia.

Nissan was the first Japanese car maker to begin development of a car plant in Europe. Production started at its £640m plant at Sunderland in north-east England in 1986 and exports to markets in continental Europe began in late 1988.

The planned Toyota plant, the company's first European car plant, is scheduled to begin production at the end of 1992 with output climbing to 200,000 cars a year in the second half of the 1990s. The company is hoping to achieve 60 per cent level of local content by August 1993 and 80 per cent by mid-1995. Construction work started at the 580-acre site at Burnaston, near Derby earlier this year.

According to Mr Junji Numata, a managing director of Toyota Motor and chairman of Toyota Motor Manufacturing (UK), around 70 per cent of the output will be exported chiefly to continental Europe.

Toyota is also studying the export of cars from the UK to Japan. Mr Numata says that around 80 per cent of the 200,000 engines a year to be produced at Toyota's £140m engine plant on Deeside, North Wales, will be supplied to Burnaston, but around 40,000 a year will be exported to Toyota plants abroad, including those in North America.

Production at the Toyota plant is due to start in late 1992. The facilities will include stamping, body welding, paint, plastics and assembly operations. The investment is being made in two phases with the first stage of producing 100,000 cars a year to be reached in late 1995. Toyota hopes to produce 200,000 cars a year by 1997-98.

It plans to build a 1.8 litre car range at Burnaston in the class of its present Carina II car. This will take Toyota into direct competition with European-produced cars such as the Ford Sierra, the Opel Vectra/Vauxhall Cavalier and the Peugeot 405, as well as Nissan's UK-produced Primera. Toyota aims virtually to double its share of the West European new car market by the late 1990s to around 5 per cent.

Mr Numata says that Toyota hopes to produce 200,000 units of the new car range with three body shapes, saloon, hatchback and estate car, in order to achieve the economies of scale, rather than introducing a second range. Nissan, by contrast, is already committed to building two ranges at its Sunderland plant, the existing upper-medium Primera range launched this year to replace the Bluebird, and a Micra-class supermini to be launched in 1992.

Toyota plans to sell around a third of its production in the UK and two-thirds in export markets, chiefly in Europe, says Mr Numata. Under a voluntary agreement with the UK government, Toyota will aim to reach a 60 per cent local content level by August 1993 and 80 per cent by mid-1995.

Nissan is also establishing two centres in the UK for its European vehicle design and development operations as part of a £31m investment, which will create more than 350 jobs. Nissan European Technology Centre, the company which will form the European link in the company's planned global research and development network, is locating its main operation at the technology park at Cranfield Institute of Technology in Bedfordshire. A second operation will be established at the company's existing car assembly plant site in Sunderland.

Nissan maintains that the NETC will be responsible for original design and development of future cars and light commercial vehicles to be built at its assembly plants in the UK and in Spain.

Nissan aims to create a stand-alone design and development capability in Europe, which within five years should be able to take on the development of a new model range distinct from models under development in Japan or the US.

Mr Ian Gibson, managing director of Nissan Motor Manufacturing UK, Nissan's UK car assembly operation, says: "The target is that we should be able to design a vehicle from scratch in Europe."

For the future Nissan's European operations will continue to draw engines and transmissions from the parent company's design and development resources in Japan, but within eight to 10 years it aims to launch European model ranges, where the body, suspension, drive axles and trim have been designed, developed and engineered in Europe, chiefly in the UK.

Kevin Done looks at the advantages of 'lean production'

The secrets of success

THE EUROPEANS take more than twice as long as the Japanese to assemble a car. It takes the Europeans and the Americans almost double the engineering effort to develop a new car compared to the Japanese, and the Japanese will finish in two-thirds of the time.

These are some of the provocative findings of a study published recently after five years of research led by the Massachusetts Institute of Technology. It suggests the differences stem from a manufacturing revolution led by the Japanese auto industry that has been as sweeping as the triumph of mass production over craft production in the early decades of the century.

The MIT study's directors, Daniel Roos, James Womack and Daniel Jones insist that "scaremongering about the Japanese threat and tougher forms of protection are not the answer and are self-defeating."

The $5m, 14-country study undertaken by the International Motor Vehicle Programme at MIT – which has been published recently as a book entitled "The Machine That Changed The World" – maintains that a new way of making things, the authors have coined the phrase "lean production", is rapidly making mass production obsolete.

Lean production is considered to have arisen first in Japan with the concepts pioneered after the Second World War by Mr Eiji Toyoda and Mr Taiichi Ohno at the fledgling car-maker Toyota. However, other Japanese and some western groups are implementing elements of lean production elsewhere, most notably in North America, says the study.

How does the lean production pioneered by Japanese car makers differ essentially from mass production?

According to Roos, Womack and Jones, the mass producer uses narrowly skilled professionals to design products made by unskilled or semi-skilled workers tending expensive single purpose machines. These churn out standardised products in very high volume.

Because the machinery costs so much and is so intolerant of disruption, the mass producer adds many buffers in the shape of extra supplies, extra workers and extra space in order to ensure smooth production. Since changing over to a new product costs even more, the mass producer keeps standard designs in production for as long as possible.

"The result: the consumer gets lower costs but at the expense of variety and by means of work methods that most employees find boring and dispiriting."

The lean producer, by contrast, uses teams of multi-skilled workers at all levels of the organisation, and employs highly flexible, increasingly automated machines to produce lower volumes of products in great variety.

The MIT study uses the term "lean" production, because the system uses less of everything compared with mass production, "half the human effort in the factory, half the manufacturing space, half the investment in tools, half the engineering hours to develop a new product in half the time."

The study traces the beginnings of lean production techniques to the troubled early days of Toyota in Japan when the company was beset by strikes. In 13 years of effort Toyota had by 1950 produced 2,685 cars compared with the 7,000 (cars and kits) *a day* that were pouring out of Ford's massive vertically integrated complex at Rouge close to Detroit. Today Toyota is the world's third largest car maker and is close to capturing 10 per cent of the world car market.

Ohno began by re-thinking processes in the metal stamping shop and the final assembly area, but eventually the principles of lean manufacturing have been applied throughout the automobile manufacturing chain from assessing the wishes of customers, to design, development, engineering, manufacturing, the components supplier network, final assembly and distribution.

Under the system of mass production "letting cars go on down the line with a misaligned part was perfectly OK, because this type of defect could be rectified in the rework area, but minutes and cars lost to a line stoppage could only be made up with expensive overtime at the end of a shift. Thus was born the 'move the metal mentality' of the mass production auto industry."

In the MIT analysis Ohno's thinking on rework was inspired. He reasoned that the mass production practice of passing on errors to keep the line running caused them to multiply endlessly. He placed a cord above every work station and instructed workers to stop the whole assembly line immediately if a problem emerged that they could not fix. Then the whole team would come over to work on the problem.

The Toyota Production System and from it lean production has taken a couple of decades to develop, but the results have clearly been impressive. "Today, Toyota assembly plants have practically no rework areas and perform almost no rework. By contrast a number of current-day mass production plants devote 20 per cent of their plant area and 25 per cent of their total hours of effort to fixing mistakes."

The testimony to this achievement comes from American buyers' reports on the quality of rival products. Toyota's vehicles, says the MIT study, have among the lowest number of defects of any in the world, comparable to the very best of the German luxury car producers. But the Germans devote many hours of assembly plant effort to rectification.

The data on which the MIT conclusions are based come from what is claimed to be the most comprehensive international survey of the auto industry ever undertaken. The International Motor Vehicle Programme gathered information from over 90 plants in 17 countries, about half of the world's assembly capacity.

A Japanese luxury car plant required one half the effort of the American luxury car plants, half the effort of the best European plant, a quarter of the effort of the average European plant, and one-sixth the effort of the worst European luxury car producer.

"At the same time the Japanese plant greatly exceeds the quality level of all the plants except one in Europe, and this plant requires four times the effort of the Japanese plant to assemble a comparable product. No wonder western luxury car producers are terrified by the arrival of Lexus, Infiniti, Acura and the Japanese luxury brands still to come."

The MIT researchers insist that their study has shown that it is too simple now to equate "Japanese" with "lean" production and "western" with "mass" production. The levels of achievement vary greatly in Japan itself as well as elsewhere in the world. Some plants in Japan are not particularly lean and some Japanese-owned plants in North America now demonstrate that lean production can be practised far away from Japan.

The gap in productivity and quality in the assembly plant has been apparent for some time, but it is now in new model design and development that some of the most alarming disparities are to be found. They add credence to the impression that traditionally organised western car makers are in danger of being swamped by an array of new products, developed with much shorter lead times and with much shorter life cycles.

The MIT team found that a totally new Japanese car required 1.7m hours of engineering effort on average and took 46 months from first design to customer deliveries. By contrast, the average European and US projects of comparable complexity took 3m engineering hours and consumed 60 months.

The Machine That Changed The World, James P. Womack, Daniel T. Jones & Daniel Roos, Rawson Associates, Macmillan Publishing Company, 866 Third Avenue, New York, N.Y.10022. $22.50.

ACCOUNTANCY COLUMN

Money men play Santa to Muscovites

David Waller has a seasonal tale about a team of hard-headed consultants doing their bit for the hungry. The charitable team is from Andersen Consulting, an organisation better known for its Scrooge-like financial controls. Those who are going hungry are the people of Moscow.

AS THE west prepares to gorge on turkey and mince pies, Muscovites are bracing themselves for a hard winter. Snow is falling, the food shortages are getting bigger, the queues longer.

The authorities are terrified that supplies of bread are going to run out. It is disturbing enough that supplies of meat, fruit and other commodities are already erratic, disrupted by the workings of the black market. It would be catastrophic if the same happened to bread.

Bread occupies a central position in the Russian diet and culture. It has been celebrated by poets and novelists since the time of Pushkin.

Today, the ready availability of bread is one of the few certainties in a world of change. So stable have supplies been that the last time there was no bread in Moscow was in October 1917.

Father Christmas came to Moscow early this year, in the unlikely form of Mr Keith Burgess, the Welshman who heads Andersen Consulting in the UK. In the autumn, he visited the Soviet Union on a marketing trip, meeting members of the Moscow Soviet.

His mission was to advise on how western knowhow could be applied to the myriad problems facing the Soviet Union. He came up with the idea that Andersen should advise on improvements to the way bread reaches the shops in Moscow.

The authorities liked the suggestion and last month a team of five consultants went to the Soviet capital. They completed their report a fortnight ago and their recommendations have been accepted.

More consultants will go out early next year to help to put the plans into operation.

Many firms of accountants and consultants are now active in eastern Europe and the Soviet Union. The Andersen project gives a good insight into the work that the firms are doing and the needs the country is facing.

Some 2,400 tonnes of bread are baked every day in Moscow, in 24 factories and 38 smaller bakeries, most of which were built in Stalin's era. The product is distributed via 720 supermarkets and 700 bread shops.

The grain for the mills arrives in Moscow in barges that have floated down the Moskva. A fleet of trucks distributes the grain to the factories and bakeries. Once in the factory, the grain is stored in hoppers before being ground down and mixed with water and other ingredients to create dough. The dough is chopped to size and baked.

The bread emerges, is racked, and is then left outside for collection and distribution. It stands in the cold for several hours before being delivered to the shops. It is sold on a strictly "first-in, first-out" basis.

It is heavier than the western product and contains no additives. As a result, the average loaf (which costs the consumer between 20p and 1p, depending on which exchange rate you use) stays fresh for between six and 14 hours.

Such are the hold-ups that the bread is generally stale by the time the disgruntled Muscovite gets hold of a loaf. There is only a limited supply of bread on the black market.

Remember that Andersen consultants encounter cultural obstacles when they talk to accountants from Arthur Andersen or Price Waterhouse. They certainly encountered conceptual difficulties when talking to Soviet baking engineers and van drivers.

According to Mark Aston, the partner in charge of the project, not the least of the conceptual difficulties was that Russians have no concept of the consumer. That was resolved pretty rapidly, however, by the suggestion that consumer meant "the people" in the Marxist sense.

Even so, it was difficult to persuade people working in different parts of the production pipeline to talk to one another. Initiative was scarce. There was no notion of productivity, no way of measuring performance save by reference to the production targets set by the Ministry of Trade, the Ministry of Grain Production, the Moscow Bread Retailing Organisation and the Moscow Retailing Organisation.

The conclusion reached by Aston was that there was nothing wrong with the absolute amount of bread baked in Moscow, and that therefore there would be no outright shortages. So long as the grain arrives from the republics – perhaps a dubious assumption to make – Muscovites can be guaranteed a regular supply of bread. Whether that bread is fresh is a different question: by way of market research, an old lady told Mr Aston that she could only get what she wanted two days a week.

The pipeline is fragile – with bottlenecks appearing at the baking stage (where capacity is under-used) and at the point of delivery from factory to shop (where drivers spend too much time dealing with red tape). Perceptions of a shortage could, however, lead to panic buying and a real and damaging shortage.

Andersen's short-term recommendations were as follows: the productivity of the plant should be improved (by simple adjustments to the baking process) and should be more closely geared to the peaks and troughs of demand for bread throughout the day; and the productive use of transport should be tightened so that drivers spend more time driving and less time filling out forms at the factory gate.

Furthermore, the process by which the shops place their orders should be rationalised: it is not uncommon for one factory to have only two phones to take orders from hundreds of shops. If the order fails to get through, the factory manager assumes that the demand does not exist and bakes accordingly.

In the long term, Andersen recommends that: greater commercialisation should be introduced into the bread pipeline; factory technology should be updated; and western-style performance measurement systems should be put into place to link rewards to output.

The short-term proposals are intended to ensure that supplies of bread – with some degree of choice – are available on four, rather than two days each week. For that, Muscovites will have to thank Mr Burgess. He finds it very difficult to own up to the fact – so uncommercial does it seem – but the original project was carried out free of charge.

Once the festive season is over, however, Andersen will revert to type: it intends to charge for putting its recommendations into practice.

ACCOUNTANCY APPOINTMENTS

ARTS

Das Ganze ein Stuck

COLOGNE

Loosen your muscles and polish your small talk. *Das Ganze ein Stuck* ("It's all a play") is a party piece, your ticket is your invitation. Frederike Roth's play, written in 1985, is about a man, a woman and a group of *kulturdamenherren* – culture-vultures on the spree. Some come from the cast, the audience are the rest.

I don't know if there's a routine. On the first night, we played musical chairs; after half an hour, an actor took each of us by the hand, semi-waltzed us across the stage and sat us down somewhere else. Actors chatted to us, there was cabaret, tinsel highlights, a woman dressed as a tiger, nudes embracing, a touch of sado-masochism when a man seemed to rape a woman while strangling her with his braces. All this and a play with a message too.

Gunter Krämer directs the work as a companion piece to Goethe's play *Stella*, which is also in the Cologne Schauspielhaus repertoire, but since capacity for *Stella* is almost a thousand, and just 99 people are admitted each night to the contemporary production, only a small percentage are going to reap the double benefit. In fact, Roth's play could work as a commentary on almost any classic drama about love, since her theme is life as role-play, theatre as metaphor for the distance between men and women which makes love impossible.

Two characters appear in both productions, Ingrid Andree as a heroine resigned to wayward man, Maria Happel as a child who here shrieks out Freud-programmed questions like "Do women always become mothers?" Roth's best gender battles are mime sequences. A set of stylish women journalists on a "working picnic" stumble across a naked man and beat him to the ground with their notebooks and briefcases; one of them writes their report on a manual typewriter balanced on a seesaw.

In another sketch, the central, nameless couple (Andree and Bert Oberdorfer) waltz, she tears the record from the player. They start again; she dances like a ragdoll manipulated by him, then she is just a limp body, feet scraping the floor. Finally he throws her into the stalls and performs a little mock-waltz alone. Each dance she comes round in time to turn the record off at the same point: life a series of programmed acts.

This is smart but hardly original; a play about repetition runs a greater risk than most of becoming repetitive. What keeps interest ticking over is Kramer's wizardry as designer. It's as if this ambitious director finds the stage isn't enough, the drama has to spill out into the rest of the theatre.

He retains the set from *Stella*, a gigantic playground, but inverts it. The audience starts off at the back of the stage, sitting on garden chairs, rustling through the dead leaves. Later, during a cocktail party, we are moved to the front of the stage and the cast progresses to the stalls, clambering over seats, commentating from the aisles, looking at us on stage, whirling their clothes off around the auditorium. O, those vile bodies: fun for a while, but I wonder who tired of watching whom first – cast or audience?

Jackie Wullschlager


Visually dazzling: 'GoodFellas'; and comic renaissance with 'Crimes and Misdemeanors'

That deadly dish, the Euro-pudding

Nigel Andrews looks back at films good and bad during 1990

Annual round-ups are the best and worst time for the film critic. Asked to turn one serendipitous twelvemonth into a clearly defined epoch, he scratches his head, scours past columns and searches for the catchy generalisation.

It was the Year of the Fading Sequel Trend... The Year of the Resurgent Gangster Thriller... The Year of the European Co-Production... The Year of the Mutant Turtles... The Year of the Ghost Film. It was each of these things. But most of all, it was the year that began on January 1st 1990 and ended on December 31st 1990.

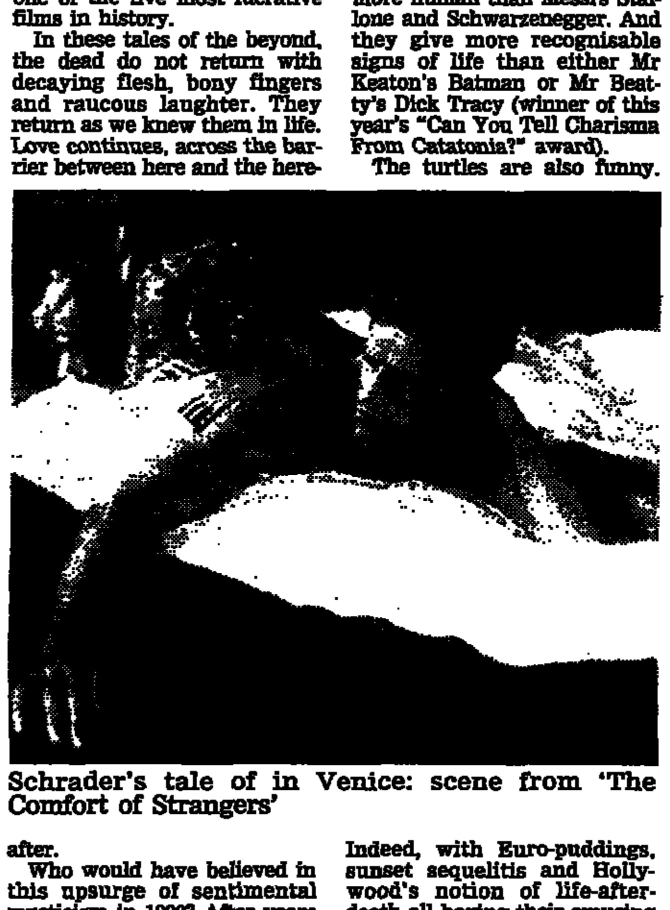
If there was no one defining characteristic, however, there was plenty of movement. Hollywood Removal Services Inc were looking long and hard at the following: Sylvester Stallone and his upward-of-$12m asking fee (after one semi-hit and one flop), David Lynch and his reputation for cult-movie infallibility (after the wildly OTT *Wild At Heart*) and above all the long-running sequel phenomenon. This had a poor year, with *Back To The Future 3* and *Die Hard 2* barely making $100m each (pin money today in pictures), and *BTTF 2* and *Gremlins 2* declaring virtual pauperdom with $40-50m.

More on this in Saturday's FT when I speculate on what follows the follow-on in sequel-addicted Hollywood. In non-sequel-addicted Europe, it has been the year of the Euro pudding. The recipe for this deadly dish is as follows. Take a star each from several different countries; put them in some nameless Euro-setting; select a director whose nationality differs from any of his actors; presell all TV, cable and video rights (before any potential buyer can see the finished film); then shoot the damn thing.

Three Sisters, Dr M, The Mad Monkey, Mister Frost... As the Euro-pudding steams and quivers around us, the kindest thing anyone could do is to pour brandy over it and incinerate it. In only two 1990 movies did cross-fertilisation between Eastern Atlantic countries produce a masterwork. They were the Franco-Dutch *The Vanishing*, a thriller about a mass-murderer, and the Anglo-(American)-Italian *The Comfort Of Strangers*, Paul Schrader's tale of death in Venice. Both films worked because their very subject was disorientation. Strangers in a strange land, undone by alien manners, may be the true and only subject for co-productions in Europe: at least until we are all so federalised that we share a common culture anyway. (Do I hear screams of protest from a house in Dulwich?)

Thematically, Europe and America both brought forth a new humanism, which arrived hand-in-hand with a preoccupation with death. This odd-seeming wedding is odd only until you think about it. Death is a natural subject for a planet entering the last decade of a millennium. And both death and its happier companion, life after death, have usurped our screens this year: from Spielberg's *Always* to the smash-hit Paramount fantasy *Ghost*, whose $200m revenue to date (in America alone) makes it one of the five most lucrative films in history.

In these tales of the beyond, the dead do not return with decaying flesh, bony fingers and raucous laughter. They return as we knew them in life. Love continues, across the barrier between here and the hereafter.



Schrader's tale of death in Venice: scene from 'The Comfort of Strangers'

Who would have believed in this upsurge of sentimental mysticism in 1990? After years of *Halloweens* and *Friday The 13ths*, in which human beings were something you butchered to make a box-office holiday, here is a trend that proves a long-held Andrews Theory. ship dementia. Every age of violence will naturally yield to an age of non-violence. These things are cyclical; they reflect the times we live in; it is as futile and foolish to meddle with screen violence as it would be to roadblock an avalanche.

Indeed we have not only a New Humanism in the cinema today. We have a renaissance of comedy. Half of my top ten films for 1990 are either comic or a lighter shade of tragicomic. And even my reserve pantheon, including *Miami Blues, Time Of The Gypsies, Celia, Tremors, Cinema Paradiso* and *Blaze*, glitters with proof of modern cinema's talent for distilling hilarity from horror or a smiling truth from tragedy.

Even those accursed turtles bring a new comical humanism to their genre, the comic-strip action film. They may wear shells and look slightly green. But with their lively argot, their breakdancing flair and their hunger for pizzas, they are noticeably more human than Messrs Stallone and Schwarzenegger. And they give more recognisable signs of life than either Mr Keaton's Batman or Mr Beatty's Dick Tracy (winner of this year's "Can You Tell Charisma From Catatonia?" award).

The turtles are also funny. Indeed, with Euro-puddings, sunset sequelitis and Hollywood's notion of life-after-death all having their amusing aspects, the only area of modern cinema from which it is impossible to extract a smile or laugh is, I fear, (yes, you guessed it) British cinema.

We barely produced one memorable "British" film. We hired out our talents to non-British movies like *Teenage Mutant Ninja Turtles*, directed by Britain's Steve Barron, or to movies that though set in Britain had Hollywood backing and Hollywood casts, like the Puttnam-produced *Memphis Belle*. And we had an emergency meeting with Mrs Thatcher in the summer which ended with promises of help for – British cinema? No, European co-production.

There are two options for Britain if it is to survive as a movie nation. Either we fund an extradition programme for all UK film-makers now working abroad: including Ridley and Tony Scott, Alan Parker, Adrian Lyne, Stephen Frears and Peter "Gone to France and Holland for finance, back soon" Greenaway. Or we make a determined effort to develop a popular, profitable entertainment sector, producing the kind of staple movie traditions that supported us before.

No country can exist without bread-and-butter film-making. We have collapsed as an industry because we have no modern equivalent to the bygone Ealing comedies, Hammer horrors and Carry Ons; and we are now losing even Bond to foreign production bases, not to mention series exhaustion.

The best news about British cinema I heard all year was that someone has had the vulgar bravado to set up a sequel to *The Krays*. *The Krays 2*!!? Heaven help us. But then Heaven does help those who help themselves. And if the only popular mythology Britain can find with which to rouse world audiences is East End gangsterdom, so be it. *The Krays* was the year's surprising native hit, critically and commercially. Let us have a *Krays 2*, and put me down now for a share in *Krays 3*. (Let me add that I yield to none in my loathing for the real-life Reggie and Ronnie. But truth-plucked anti-heroes have been the stuff of drama ever since *Richard III*).

What better timing for a Krays craze than now, since gangsterdom is the flavour of the moment in Western cinema. Coming soon: the Coen brothers' *Miller's Crossing*, Cimino's *The Desperate Hours* and Coppola's *Godfather 3*. Been and pyrotechnically gone: *GoodFellas*, the most visually dazzling film of the year. All the cinema needs for a surefire hit in 1991 is make a movie about a gangster who dies and comes back to life to romance his old moll, watched over by a turtle or two...

But enough. Time for the Top Ten.

Crimes And Misdemeanors
The Comfort Of Strangers
Gremlins 2
The Krays
Let's Get Lost
Metropolitan
Milou In May
Piravi
A Short Film About Love
Sweetie.

And as an honorary eleventh film, let me add Jean Vigo's 56-year-old *L'Atalante*. We always knew it was a masterpiece. Restoration has given it new life and a new lease of life.

Cinderella

SADLER'S WELLS

London City Ballet has an astute understanding of its place in the scheme of things. There is a large public whose expectations of ballet are happily met by the repertory that LCB provides: middle of the road, middle-brow, and always agreeable. The works that are going to meet these demands have an in-built familiarity; the story well-known, the production – specially made or not – obeying certain clear rules about theme and presentation.

Last year's *La Traviata* should have been better, more glamorous, if it were to send its viewers home totally happy. This year's *Cinderella* will satisfy every hope that LCB's faithful can have of a ballet. The story is directly told in unambiguously "classical" fashion through William Morgan's choreography. Bramwell Tovey's arrangement of Rossini (first made for Scottish Ballet) bends that master to balletic convention and even contrives a catchy waltz. Johan Engels' designs are frosted with sequins, in impeccable shop-window taste, and make everyone look as if they were on the way to a fairy-tale ball... which indeed they are.

There will be no disgruntled voices to complain that they have been short-changed in the telling of the story, or in the seasonal excitements that are associated with the ballet. It must inevitably fall to the crabbed and ungenerous snapping of a critic to point out that, wholly amiable as the evening is, the characterisations have the depth of tissue paper, that it is a fault of production to have fairies bending low to emerge from a fire-place as from a dungeon, and that a divertissement of the elements – who arrive to scare the daylights out of Cinderella as she waits to be transformed – would not be out of place in a cabaret, but are wildly inappropriate in this piece.

In other respects, the staging, the choreography, are conscientiously done. All *Cinderellas* are going to be alike, and this version is as alike as any I know, albeit I longed for just one pinch of Ashtonian wit to make it seem a real ballet rather than a clever impersonation of one. The Stepsisters are desperately unfunny, one forever clutching a book, the other a knitting-bag – though the gifted Kim Miller fights against the odds and gets a couple of laughs. Marian St.Clair and Victor Barykin were the leading couple for Tuesday night's opening performance, giving their audience everything they could want, from down-trodden charm to glittering costumes and one-arm lifts in the final pas de deux. (Barykin's Bolshoy years have not prepared him, however, for dancing on the Wells' postage-stamp stage). LCB's artists give of their all, and the production gives them enough opportunities for their energy to seem well-spent. And in the glow from the stage you can see that the audience is having a wonderful time.

Clement Crisp

Snow White

STRAND THEATRE

This *Snow White* works in a mysterious way its wonders to perform, but it gets there in the end. It is not really a pantomime at all, but a relatively straight story that uses pantomime devices. That is perhaps what slightly puzzles the audience at the start. Here they are, ready to join in and sing along, but the calls for participation build up only gradually. There is no pantomime dame, no suspended song sheets and no deviation into taking off television programmes.

Instead there is the plot, and a rather elaborate one at that. It is such a long time since I have seen a pure version of *Snow White* that I cannot vouch for the accuracy. Certainly I do not remember the princess stopping off with a bunch of Spanish gypsies before she reaches the seven dwarfs. Anyway, here she does, and it is a pleasant enough diversion. She also comes across a collection of animals in the forest who might have come out of Beatrix Potter. The result is that it is almost the end of the first act before stumbles upon the dwarfs' abode. And then there is a slight shock: the dwarfs are real dwarfs, not just children or small people dressed up. I think that this works: it makes for a slightly more haunting story.

Sticking to the plot has something to be said for it. *Snow White*, after all, is not a bad tale. It has the villainous Red Queen, appealing to the mirror, mirror on the wall, murder, witchcraft, poison and revenge, quite apart from the delights of the dwarfs and the ultimately happy ending. Where this productions scores is in steadily drawing the audience in, so that by the second act there is quite a lot of shouting when Snow White is being invited to eat the fatal apple and even more when the Red Queen is being accused of murder.

A slight problem is that Marti Caine is a little too nice to be consistently hissed. Her Red Queen is full of charm and cabaret playing. Although she turns herself into a witch, no-one could dislike her all the time. She is also prone to bursting out laughing. Thus the volume of booing is low. Ms Caine must practise being nastier.

For the rest, the Red Queen has a pet called Catsmeat played by Sean Oliver. The part is a mixture of fool and courtier and is rather cleverly done. It is not the only touch in the show that turns the mind to more adult works. There is also an attractive narrator in Derek Griffiths who from time to time directly addresses the audience to stimulate the pantomime mood.

The second act is better than the first, but that always seems to me the right way round. It makes for a satisfying whole. Snow White, the straight female lead, is played by Louise English and the show is directed by Roy Jones. I enjoyed it. A pity, however, that the dwarfs are not listed by name; one of the tests of seeing *Snow White* is being able to remember all seven, not just Happy.

Malcolm Rutherford

Eliot Gardiner's Schumann

QUEEN ELIZABETH HALL

A couple of months ago the English Baroque Soloists and John Eliot Gardiner took the plunge and moved into the romantic repertoire with Brahms's German Requiem. Even these days, when early music includes everything up to Wagner, the orchestra's name looked an anomaly but a change has come about sooner than expected.

With Tuesday's concert the present caught up with the past. When it plays 19th-century programmes, the orchestra is now to be called the Orchestre révolutionnaire et romantique. The core members stay; but the programme made no mention as to what instruments they will be using, which is a shame, as audiences would surely like to know how far they have moved on from their baroque speciality.

The style of the orchestra certainly seems unchanged. In Schumann's First and Second Symphonies it would be difficult to claim anything about it that was specifically "revolutionary" or "romantic". Eliot Gardiner lead the players with the same exactness of rhythm and phrasing that we expect from him in 18th-century music, even if the second violins did keep making a mess of the teasingly awkward string parts in the First Symphony's Finale.

By and large the performances were determinedly unromantic in the conventional sense, swift and clipped, physically elating in the fast movements. The Schumann symphonies are not, of course, virgin territory for period specialists. Norrington, so often the first to break new ground, has also performed and recorded them, so the clarity of sound and sharp focus will probably start to feel normal to us soon in this music.

What Eliot Gardiner brings to it, apart from being a stickler for precision, is ebullience. No matter how long and hard the players have rehearsed, the performances sound as if they are being recreated in the heat of the moment. The Second Symphony, which is always liable to close in upon the unwary with its thickness of sound and regularity of thinking, does not often come across as brilliantly lit as it did here.

The evening also harboured one well-kept secret. In between the symphonies Elizabeth Connell swept on and sang an authoritative performance of Beethoven's *Ah! Perfido*. In fact, we had been expecting to see a quite different singer, Charlotte Margiono. As there was no announcement to the contrary, many people in the audience must have gone away wondering why Miss Connell looked so unlike her photo in the programme.

Richard Fairman

Turnage's 'Kai'

ADRIAN BOULT HALL, BIRMINGHAM & RADIO 3

The Birmingham Contemporary Music Group is now established as a valuable complement to the Symphony Orchestra, sheltering under the wing of the CBSO and sharing with it instrumentalists and an artistic director, Simon Rattle. The programme that Rattle conducted with the BCMG on Tuesday – Messiaen's *Couleurs de la cité céleste* (with Peter Donohoe taking the solo piano part), Berio's *Laborintus II* (with Electric Phoenix) and a new work by Mark-Anthony Turnage – was lively and involving; just the kind of well-balanced concert that once upon a time the London Sinfonietta (remember them?) would have regarded as standard, before it tried to be all things to all concert goers.

It is still early days for the BCMG, and its crusading zeal remains intact. The Turnage première was *Kai* for cello and ensemble, the first fruit of his three-year residency with the Birmingham orchestras, which is scheduled to produce two further commissions (including a large-scale choral work) in succeeding seasons. It was written for the CBSO/BCMG principal cellist Ulrich Heinen, yet the roots go back a couple of years to an opera based on the life of Charlie Mingus that Turnage began after *Greek* and later abandoned. An aria, "Sleep on", from that torso provides the final elegiac section of the new work; while working on the score Turnage heard of the death of Kai Sheffler, the principal cellist of the Ensemble Modern, who had taken part in the Munich première of *Greek* in 1988.

The soundworld of *Greek* spills over here; the score is permeated with the inflections of jazz, in the opening section, where the ruminating cello is set against keening saxophones, the faster music of the centre which is articulated by a cello cadenza (this the most conventional, least convincing part of the work), and in the gentle, comforting melody of the finale, before a return of the opening, darker and more anguished, rounds the work off.

Even after a repeated hearing *Kai* takes a while to settle; though striking, the opening moments are not quite in focus, and only when a call-and-response pattern is established does the music find its centre of gravity. The cello writing is impassioned rather than demonstrative (which makes the cadenza seem all the more misplaced), the colours extracted from the ensemble full of mysterious, disquieting rustles and hazes. Like so much of Turnage's work its surface attractions are immediate, the deeper currents of feeling slower to emerge.

Andrew Clements

ARTS GUIDE

December 14-20

EXHIBITIONS

London

Hayward. Jasper Johns. Retrospective of the American artist. South Bank. Daily: Late closing Tue and Wed. Until February 3.

Paris

Carte musées et monuments sold in museums and metro stations enables visitors to avoid queues at 60 museums and monuments, including the Louvre, Musée d'Orsay and Versailles.

Musée d'Orsay. From Manet to Monet. The museum's acquisitions over the last seven years comprise paintings and drawings, photographs and furniture with an exceptional ensemble of Gallé vases. Rue Bellechasse 40494814. Closed Mon. Ends March 10.

Louvre. Recent acquisitions of the Department of Objets d'Art.136 exhibits of medieval ivories and goldsmiths' work, of renaissance bronzes, enamels and majolicas and of 18th century furniture, tapestries and porcelain – many of which are royal gifts or royal possessions – have come to enrich and to complete the museum's collections. Hall Napoleon, closed Tues, ends January 21.

Galerie Maurice Garnier. Bernard Buffet – La Bretagne. In his unmistakable spiky handwriting, the painter beloved by the Japanese, pays homage to Brittany's ports and beaches. 6, ave Matignon (42256165). Closed Sun, Mon and lunchtimes.

Grand Palais. Picasso. A portrait of Jacqueline Picasso with her hands crossed round her knees is the symbol and the central point of an exhibition of 47 paintings, two sculptures, 40 drawings, 24 sketchbooks, 19 ceramics and 247 engravings and lithographs which have come to enrich, in lieu of death duties, the French national collections. The exhibition begins with the blue period and ends with the obsessive erotic works of Picasso's last 10 years. Closed Tue, late closing Wed.

Brussels

Galerie Isy Brachot. An exhibition to celebrate its 75th anniversary: contemporary paintings.

Musées Royaux d'Art et d'Histoire. Inca-Peru an exhibition that traces the evolution and decline of the Inca culture through 450 artefacts. Closed Monday, ends December 31.

Madrid

Centro de Arte Reina Sofia. After undergoing seven months of major reforms the centre reopens as Spain' s "national" contemporary art museum. Memory of the Future: Italian art 1900-1984 is the most comprehensive show organised to date on 20th century art.

Fundacion Juan March. Cars. Andy Warhol's unfinished series of car drawings and paintings, commissioned by Daimler-Benz on the centenary of the invention of the automobile, are now on view at the foundation on loan from Daimler-Benz in Stuttgart.

Barcelona

Museo Picasso. Homage to Jacqueline – between 1954 and 1970 Jacqueline Roque was a constant source of inspiration for Pablo Picasso, they married in 1958. The exhibition brings together some 150 works including portraits, paintings, sculptures, prints and pottery, in an important retrospective of the last 20 years of Picasso's artistic life and a homage to his favourite model. Ends January.

Rome

Spanish Academy. Small but delightful exhibition of works lent by the Barcelona Museum, at present undergoing restoration. All the works are of high quality, and offer astonishing contrasts of style from Zurbaran's sugary charm to El Greco's fierce mysticism. Included are two Italian works: Tintoretto's Portrait of a Gentleman and Bassano's Crucifixion. Ends January 9.

Berlin

Bruecke Museum, Bussardsteig 9. Around 152 master prints bythe expressionist artist Ernst Ludwig Kirchner (1880-1938) are on display until January 27.

Bonn

Friedrich-Ebert Stiftung, Godesberger Allee 149.70 paintings and prints by the German expressionist Max Beckmann (1884-1950) are to be seen until January 5.

Frankfurt

Staedel Museum has opened its new extension: 1,300 square metres display of 20th century art ranging from Picasso to Max Beckmann and Amseln Kiefer. For the opening ceremony there are four special exhibitions on the ground floor concentrading on Max Beckmann with works which have only be seen before in Leipzig, the hometown of the painter. Among the other artists are the American sculptors Richard Serra, Amselm Kiefer aswell as sculptures in the garden by Per Kirkeby. Staedel, Schaumainkai 63. Ends January.

New York

Brooklyn Museum. From pastoral landscapes to moonstruck mature fantasies, this comprehensive exhibit makes the claim for Albert Pinkham Ryder as the first modern American painter.

Metropolitan Museum. Mexican art from pre-Columbian handicrafts to modern murals includes a majestic panorama with more than 300 works covering 30 centuries.

Washington

National Gallery. The 350th anniversary of the death of Anthony Van Dyck is the occasion of this major exhibit of 90 masterpieces borrowed from around the world and mixed with the gallery's own fine collection. Ends Feb 24.

Chicago

Art Institute. One of Chicago's most noted conteporary artists returns home when Ed Paschke's travelling exhibit, which first appeared at the Pompidou Centre last year, arrives with 47 of the painter's day-glo portraits and landscapes.

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Fed cuts the discount rate

"ROLL UP that map; it will not be wanted these 10 years." This was the remark of William Pitt the Younger upon hearing of Napoleon's victory at Austerlitz in 1805. It might well be echoed today by anyone concerned about global exchange rate co-ordination, upon hearing of the half a percentage point cut in the Federal Reserve's discount rate.

The desire to strengthen an enfeebled dollar was self-evidently not amongst the justifications for this move. As it happens, the two other leading western economies – Japan and Germany – are also being managed with negligible attention to their respective exchange rates. Fortunately, if this is a mistake, it is not one that matters too much, at least at the moment.

One explanation for the Federal Reserve's complacency about the weakness of the dollar, which has lost 18 per cent of its overall nominal value since the middle of 1989, might be that the real rate of exchange is still far from its lowest ever level. Combined with the persistence of the current account deficit, that is certainly in the minds of some distinguished academic denizens of Cambridge, Massachusetts, the "devaluation capital" of the US.

The Federal Reserve does not, in fact, seem to want to see the dollar devalued; it simply does not care very much about it. The problems uppermost in its collective mind are the gathering weakness of both the US economy and its financial intermediaries. The budget deal and the limited inflationary pressure at present have given it the opportunity for the cut.

That US monetary policy is, in both the first and the last resorts, oriented towards stabilisation of the domestic economy can come as a surprise to nobody. It has never been anything else.

Negative growth

In this case, the nature of those domestic concerns is clear. Recent figures for production, housing starts, employment and consumer confidence have all been weak. Provisional figures for US industrial production in November, for example, show a fall of 1.7 per cent. Most economists now forecast strongly negative economic growth in the fourth quarter of 1990.

Meanwhile, the state of the US banking industry, as demonstrated by Citicorp's decision to cut its dividend by 44 per cent and shed 10 per cent of its work force, is a cause of Federal Reserve neuralgia. Lower interest rates will, it hopes, both strengthen the banks and encourage them to lend into the weakening economy.

Stable environment

Nevertheless, financial fragility is a poor reason for short term monetary manipulation. The aim of the Federal Reserve should be to provide a stable monetary environment. The difficulties of particular institutions should be dealt with through action as lender of last resort. It may be a tragedy that the system has been allowed to reach its present state; it would be little less of one if that mistake were to compromise monetary policy as a whole.

It is the state of the domestic economy that justifies the easing. Nor does the wider international context argue against it. With the German economy having grown by 5.5 per cent in the year to the third quarter and the Japanese economy slowing to a mere 5.4 per cent, the world economy is pleasingly unsynchronised. While German and Japanese monetary policies are, as might be expected, relatively tight, there is no evidence as yet of a significant slowing down in either.

Exchange rate co-ordination may be in abeyance, but the broad balance of policy among the three leading economies is about right. The serious difficulties are within Europe. The UK, in particular, is committed to paying a premium over German interest rates. This is the price the UK must pay for past excesses, compounded by the need to turn itself from the inflation-prone economy it has been into the germanic economy it aspires to become. Since the UK is further away from that goal even than the US, the road it must travel is depressingly clear: it passes via the swamps of a deep recession.

The arts and the longer term

MR TIMOTHY Renton has made a good start in his first few weeks as UK minister for the arts. His predecessor, Mr David Mellor, was in the job for only a few months and had inherited a plan from the long-serving Mr Richard Luce to devolve the funding of the arts to a number of regional boards. Mr Renton has decided to go ahead with the devolution, while also doing something to shore up the major national companies like the Royal Shakespeare.

Yesterday's announcements, however, should also be seen as a pause for thought. For it is clear that there is less than universal satisfaction about how the arts are financed. Some of this discontent among the performing companies is unfair to the government, led until so recently by Mrs Margaret Thatcher. Her administrations generally kept up the level of arts spending, and sometimes increased it above the rate of inflation. Indeed it is difficult to see any modern British government deliberately cutting back: the unpopularity incurred among the customers as well as the performers of the arts would be quite disproportionate to the savings.

Yet that does not mean that there should be no changes in the approach. Devolution is certainly one of them. In the arts, as in practically everything else, the devolving of decision-taking is to be welcomed. But there are practical problems because Britain is in many ways a very uneven country, dominated by the power and size of London and the south-east.

Devolution on its own would also not resolve the problems of the underfunding of the arts. It can be argued that there ought also to be some measure of redistribution – away from London and in favour of the regions. The difficulty with that, however, is that it might mean spreading resources too thinly, which some would say has already happened.

National flagships

Besides, there are companies which are not based in London, but which by no means consider themselves as regional. The Hallé Orchestra, for example, has a national, even international reputation. Should its funding now be subject to some new regional body? Equally, there are problems in London itself. The national flagships, such as the Royal Shakespeare Company and the Royal Opera House, can probably be treated separately, like the old direct grant schools. The Arts Council enhanced their grants earlier this week. But is a theatre such as the Royal Court to be treated like any other theatre in the London region?

Funding arrangements

In his statement to the House of Commons yesterday, Mr Renton left a lot of questions open. The deadline for the establishment of the new regional boards has been extended. It will be decided later precisely for which companies they will be responsible. In the meantime, the minister said he will be seeking a "comprehensive national arts strategy". In such a strategy, devolution will not be enough. Attention will have to be paid to new methods of funding. Reliance on sponsorship has probably gone as far as it reasonably can, and is vulnerable to recession. It is hard to rely unduly on the local authorities when their spending is already under pressure and the future basis of local finance is again under scrutiny.

New methods could include arts lotteries, whether national, regional or both. This would imply earmarking of a certain proportion of revenue to the arts. The Treasury hates such restrictions on its freedom. But in this case they might be desirable.

None of that should prevent the arts companies looking again at their costs and pricing policies. It is arguable that we have become too used to arts subsidies. It is not unreasonable for good theatre or good music to cost more than a meal at the restaurant next door. Seat prices should rise for those who can afford to pay, while concessionary rates should be kept for those who cannot.

Mr Renton's statement suggests that he has an open mind. If he is really looking for a strategy to take us into the next century, it is fair to give him time. Six months perhaps?

After successful economic reform, Mexico needs to broaden its democratic base and tackle wealth disparities, says **Robert Graham**

The twin peaks Salinas must scale

President Carlos Salinas de Gortari of Mexico worries about his own success. After two years atop Mexico's pyramid of power, this 42-year-old Harvard economist has scarcely put a foot wrong. His performance has even won admiration from the opposition who claimed his election was fraudulent.

Yet he worries because Mexican presidents have tended to start off well and end up badly. "Nobody remembered how well presidents had done at the beginning, or in the first five years," says Mr Salinas. "They only remembered the last... For me it is a kind of obsession: November 30 1994 – that was the day I wanted to be remembered properly."

His situation, however, differs from his predecessors, not least because of the sheer youth and ability of the cabinet. Like the president, most are in their early 40s with academic credentials (PhDs to a man, women being notably absent) that make this the best-qualified administration in Mexican history.

Furthermore, all have had previous experience inside government. As a result, complex issues of macro-economic policy have been handled with speed and vision.

"I've never seen a government which seems to enjoy solving problems so much and they're always thinking three steps down the line," commented a foreign diplomat.

Mr Salinas' pledge to modernise Mexico by opening up the economy has been implemented faster than even he imagined possible at the outset. He has also produced an unexpected ace by deciding to work towards a Free Trade Agreement (FTA) with the US.

His performance is all the more remarkable since he took office apparently weaker than his recent predecessors. His very legitimacy was in question after an election which required the old "alchemy" of the ruling Institutional Revolutionary Party (PRI) to hold back the leftwing candidate, Mr Cauathemoc Cardenas.

Nevertheless, Mr Salinas now holds the political initiative so convincingly that he can breach long-held taboos, not least in relations with the US. Decades of mutual mistrust between Mexico and the US suggested the idea of a Free Trade Agreement would be anathema. Yet when Mr Salinas met President George Bush in June and they publicly committed themselves to the FTA, scarcely a voice was raised in protest.

Since then no one has challenged the principle of the FTA. Rather, the objections have centred on the timing and scope of the negotiations. These anyway are going to be dictated by the fate of the Uruguay Round of the General Agreement on Trade and Tariffs which has been in limbo since the abortive ministerial meeting in Brussels earlier this month.

Canada is eventually expected to come within the FTA framework. This would then create a formidable regional market of 350m with total trade of $225bn. Of this Mexico will account for one third of the population and a quarter of trade.

The new linkage between Mexico and the US will inevitably affect issues other than trade and accelerate a decision on whether to peg the peso to the dollar or a basket of currencies. Mr Salinas adds: "Sooner or later, we will have to sit down and talk about the movement of labour because that is another reality... the free movement of labour would eventually have to be part of the common dialogue between Mexico and the US."

This new partnership would have been impossible had Mexico not introduced economic reforms. The process was begun under former president Miguel de la Madrid in response to the debt crisis. Most of the measures are now in place. These included trade liberalisation, tax reform, privatisation, deregulation of foreign investment, strict control of public finances, overhaul of the financial system and elimination of the debt overhang.

Free trade friends: Bush and Salinas, on his left; creating a formiable regional market

Foreign debt at a nominal $79bn is high but has been reduced to manageable proportions as a result of the rescheduling agreement on its medium and long term debt with commercial banks signed in February. The public sector deficit is falling and the economy is entering a third consecutive year of growth. Provided inflation can be brought back from this year's 30 per cent to below 20 per cent, the government believes an annual growth target of 6 per cent is not unreasonable by 1994.

Mr Salinas now holds the political initiative so convincingly that he can breach long-held taboos, not least in relations with the US

This promises to provide a stable environment for the president to tackle the two main challenges he faces during the remaining four years of his *'sexennio'*, (six-year term in office).

First, political change has to begin to match the pace of economic reform. Mexican democracy is still far from transparent, lagging behind most of its fellow Latin American nations. Every election is greeted by opposition complaints of foul play. Last month's local elections in the state of Mexico were no exception.

Second, a way has to be found to bridge the widening gap between the first and fourth worlds that exist side by side in Mexico.

It was appropriate that the latest meeting between Mr Salinas and Mr Bush on November 26 should have take place in Monterrey, the business capital of Mexico. Here, the gravitational pull of the US economy is accelerating with two conglomerates, Vitro and Cemex, already having made significant cross-border acquisitions in glass companies and cement respectively. Indeed, much of northern Mexico has already been shoe-horned into the first world.

Yet half the 82m population still live on, or below, the poverty line. Even on the most optimistic of scenarios with sustained high growth rates, the filter-down effect is going to be slow.

The two issues are interlinked because the PRI is fighting to retain the political allegiance of the under-privileged as Mexico moves towards a multi-party system. The opposition parties of the left and right broke the PRI's long-running hegemony in the 1988 elections by gaining a significant presence in Congress. However, the PRI still regards itself as a party of power. There is therefore a contradiction between Mr Salinas' desire to rejuvenate the party and the government's fear of destroying the only real political organisation in Mexico.

The PRI's 14th congress in September produced timid changes, demonstrating the continued influence of the so-called dinosaurs who see no reason to end the conveniently incestuous relationship between party and state. Thus while the president's own standing is high, the party tends to provoke indifference and cynicism.

"In the last two years, Salinas has managed to increase his personal support base; but the deterioration in the public's image of the state continues,"

A way has to be found to bridge the widening gap between the first and fourth worlds that exist side by side in Mexico

says Mr Luis Alvarez, leader of the National Action Party (Pan), the PRI's long-standing conservative rival.

Pan was one of five out of the six parties in Congress to approve a new electoral institute and a tribunal in July. Mr Salinas proudly claims: "It is the first time in modern Mexican history that electoral rules are not determined only by the vote of the PRI." This itself is an admission of the PRI's past monopoly.

The new rules and register will be in force for next year's mid-term elections. The principal change is in the establishment of a new electoral register which should prevent the dead being resurrected to vote. The temptation for gerrymandering may still exist but the consequences of being discovered will be infinitely more damaging. Another check on the democratic system is going to be the increased scrutiny from the US as the two countries move closer.

The bedrock of PRI support has been the mass of under-privileged Mexicans in whose name the revolution was carried out. Mr Salinas must now practise some political *legerdemain* to demonstrate they too are beneficiaries of his policies.

Incomes among Mexico's poor are still falling. In the rural state of Chiapas, 43 per cent of all primary schools still cannot offer the full course. The sprawling polluted megalopolis of Mexico City has 20 per cent of its 20m population living below the poverty line. Throughout the country, 15 per cent of all new-born babies are under weight, almost double the proportion in Brazil and on a par with Bolivia.

Mr Salinas must thus cater to a twin-track economy. As the state disengages from banking, steel, transportation and telecommunications, so paradoxically it gets more involved in tackling social problems and protecting the under-privileged. The claims on the budget – and the consequent risk of losing financial discipline – come from health, education, nutrition and infrastructure. For instance, this year the subsidy on maize 'tortillas', the foodstuffs staple, was removed. Tortilla prices increased more than 100 per cent, adding three points to the annual rate of inflation. But 4m of the most needy families now receive maize 'tortillas' free. Next year's budget has been cut by 5 per cent overall but social spending is up 15 per cent.

As an agricultural economist with field experience, Mr Salinas recognises that part of the problem lies in a thorough review of agricultural policy. This means tackling the inefficient system of community ownership (*ejido*) of land enshrined by the revolution. It also means a determined effort to improve the basic infrastructure in remote rural areas where more than one third of the population still live.

The government also accepts the need for direct action to cut through the corruption and torpor of bureaucracy. To this end, Mr Salinas set up the Solidarity anti-poverty campaign on taking office in December 1988. Since then its importance has been constantly growing.

"We know eventually that sustained economic recovery will mean a higher standard of living; but after 10 years of stagnation and the historic accumulation of poverty in Mexico, we cannot wait for that recovery to come," says the president. "So we have to act decisively now through Solidarity to solve social problems. It is not much in terms of resources: but it is impressive in terms of the number of people who benefit."

Solidarity provides funds for agricultural inputs, schools, drinking water, electricity, food kitchens and some infrastructure. So far it is not involved itself in job creation; but this is likely to come. Solidarity will spend $1.7bn in 1991, up 41 per cent on this year. The total amount spent is greater since each state generally matches Solidarity's funding. Such large sums of money, dispensed from an office controlled directly by the president, have created a parallel social welfare framework which looks like becoming institutionalised.

Though clearly tailored to help reflect credit on the government and the PRI, Solidarity is perhaps the most efficient means of filling gaps in an incomplete state welfare system.

When he travels around the country every week, Mr Salinas says one of the things people always tell him is 'don't fail'. "That is a word that keeps me going faster."

OBSERVER

On the high road

■ "Come on Along" was Lamar Alexander's slogan when he walked the length of Tennessee in 1978 in a successful campaign to win the first of two four-year terms as the Republican governor of the normally Democratic state. Alexander's nomination as US education secretary could put him on the road towards a far more ambitious destination.

"There's no secret that he wants to be president," says a political ally in Tennessee. "He wants to run in six years. If I were Dan Quayle, I wouldn't be very happy today."

The new education secretary, a blond and boyish 50, describes himself as a "populist/activist Republican" but his politics are hard to pin down.

A native of mountainous east Tennessee, where anti-slavery sentiment before the Civil War translated into Republican loyalty afterwards, Alexander instinctively feels more at home with the party's moderates than its right wing.

His knack in Tennessee was to transcend partisan appeals with folksy slogans like: "Tomorrow's jobs, yesterday's values."

He cajoled hostile state legislators into introducing merit pay for teachers, even though it meant raising taxes. Since stepping down as governor in 1987, he has been president of the state university system in Tennessee.

But, most remarkably, he was among the first state governors to spot the potential of investment by Japanese companies. His courtship was instrumental in persuading Nissan to locate its first assembly plant in Tennessee. General Motors shortly afterwards followed suit with Saturn.

Alexander celebrated what he perceived as similarities between Japanese and Tennesseans in a lavish illustrated book called Friends. Until then, no one had given much thought to the fact that Tokyo and Nashville are on the same latitude.

Fax flood

■ Faxes were flooded all day long at Goldman Sachs in response to my invitation yesterday to all-comers to tackle the bank's Christmas quiz. By the 5pm cut-off, more than 120 attempts arrived from all over the world. The answers are:

Which countries make up the difference between the G7 and the G10? Belgium, the Netherlands, Sweden and Switzerland (yes, the G10 are in fact 11).

Which exchange rate would Agent Cooper be most interested in this year with regard to Laura Palmer's murder? The yen-DM, which has shown twin peaks.

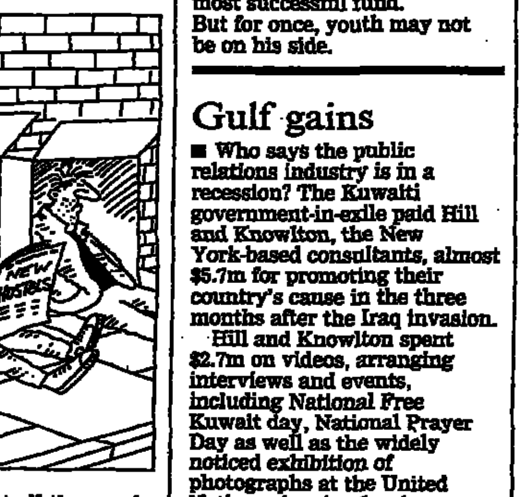
Which currency would a Persian wild animal carry while walking backwards to its royal resting place? The Omani rial.

All were answered correctly by economist Troy Bowler of Capital House, who wins Goldman Sachs's two jeroboams of champagne. A team of economists from HM Treasury, I'm told, got the whole lot wrong.

Movied out

■ Many fund managers must dearly wish they could retire before their trustees grill them on their ghastly investment record over the last year. But James Shillingford, 37-year old investment boss of M & G, promises me that this is not why he is heading for the exit.

So does his chief executive at Britain's most successful unit trust group, Paddy Linacre. He admits he is very sorry to see Shillingford go.



"I wonder what all the people in the classless society are doing today."

Nevertheless the departure will raise some eyebrows. Shillingford is a good 10 years younger than his predecessor, David Tucker, who caused a bit of a stir when resigned on the eve of the 1987 stock market crash.

Now in the midst of the worst bear market in more than a decade, Shillingford is off to learn how to make films at the National Film and TV School. Movie-makers like Robert Bresson and Peter Greenaway have a bigger attraction for him than high yielding stocks these days.

M & G's loss is not on a par with the US where the departure of Peter Lynch, Fidelity's top fund manager, has undermined the success of the $12bn Magellan Fund, the world's biggest. Unlike some of its competitors, M & G has always been keen to play down the personality cult.

Linacre has more than two dozen fund managers to pick from and has not yet made up his mind about Shillingford's replacement. An obvious contender is Richard Hughes, manager of M & G Recovery, the group's most successful fund. But for once, youth may not be on his side.

Gulf gains

■ Who says the public relations industry is in a recession? The Kuwaiti government-in-exile paid Hill and Knowlton, the New York-based consultants, almost $5.7m for promoting their country's cause in the three months after the Iraq invasion.

Hill and Knowlton spent $2.7m on videos, arranging interviews and events, including National Free Kuwait day, National Prayer Day as well as the widely noticed exhibition of photographs at the United Nations showing Iraqi atrocities against the Kuwaiti population.

The Kuwaiti account – revealed in a filing at the US Justice Department – dwarfs the sums paid by Japanese companies for retaining lobbyists and PR firms. These usually range between $500,000 and $750,000 for a six-month period.

Bash clash

■ Irish politicians go to considerable lengths to make sure that their respective Christmas parties don't clash. But things have just gone wrong.

On one side of town prime minister Charles Haughey was holding his bash. On the other Brian Lenihan was having his. For years they were close colleagues, but no more. Haughey sacked Lenihan as deputy premier six weeks ago.

Dublin's press corps were faced with a clash of loyalties: which to join?

They rose to the occasion magnificently. Most managed to squeeze in both functions. Some are even said to have made two appearances at each.

ECONOMIC VIEWPOINT

The anatomy of UK recession

By Samuel Brittan

Even the pessimists have not fully taken in the coming UK unemployment shock. "Headline" unemployment now stands at 1,728,000 and the seasonally adjusted total at 1,762,000. The latter has risen by just over 150,000 since its spring low point. The underlying increase is now somewhere between 35,000 and 60,000 a month. The lower end of the range is based on the average of the last three months. The upper end is based on November, rounded upwards; but it is not ridiculous to cite it as the unemployment figures are less volatile than the trade ones and are on a a clear upward trend.

Seasonal factors alone will boost the headline total by more than 100,000 in December and January together. There is indeed a strong likelihood of it rising by more than 100,000 in January alone, and passing 2m then or in February. Many forecasters expect even the adjusted total to reach between 2¼m and 2½m in the course of 1991; and for once they may be right. It will still be lower than the 3.1m total, which was associated with the last reversal of inflation in the early 1980s.

In any case I would expect unemployment to overtake the poll tax and mortgage rates as a source of government unpopularity. The new prime minister has already lost the chance of a honeymoon snap election, and will probably now have to wait not merely for a decisive fall in inflation, but for clear evidence of recovery from the recession, which means a 1992 election.

Because the government is expected to reduce interest rates too much, this is inhibiting even the modest and gradual cuts that might be possible

We can thus look forward to a new year which will be dominated by rising unemployment, falling vacancies, and industrial surveys reporting more and more depressed conditions. Whatever happens to interest rates we can expect strident demands to reduce them further, irrespective of sterling, especially from those who cannot accept that British monetary policy no longer takes its cue from the US, where the discount rate has been cut.

The paradox continues that because the British government is expected by a body of market opinion to reduce interest rates too much too early, sterling is weak; and this is inhibiting even the modest and gradual cuts that might otherwise be possible.

For the government to give in and engineer a unilateral realignment of the pound against the other Exchange Rate Mechanism currencies would destroy the credibility of counter-inflationary policy for decades if not generations. We have seen the collapse of policies based on unbelieving monetarism and pay ceilings, and the disintegration of those based on full-scale monetary targets. If the British establishment cannot stay the course with the latest exchange rate standard, we might as well dig in for near double-digit inflation and for a three-speed Europe with Britain in the lowest tier of marginal Mediterranean countries.

The UK might have a little more room for manoeuvre in in a more general – but still modest – ERM realignment. But as the International Bank Credit Analyst remarks: "The French are important hold-outs" against such a course. They have "invested too much credibility in hard money policies based on the strong link between the franc and the D-Mark".

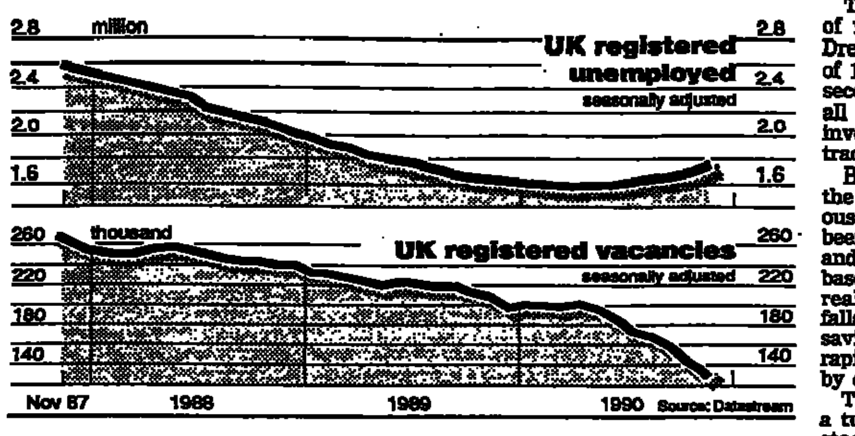
The UK would be best advised to follow the same course. The Analyst, which is Canadian-based and not at all hooked on the ERM, believes that sterling is over-valued by 4 per cent against the Mark. But it is sensible enough not to advocate the upheaval of a realignment for such a modest and debatable amount. It argues that the current sterling parity is sustainable "if interest rates fall only as fast as inflation declines" (the underlying inflation rate has yet to drop).

There has been little difficulty in convincing people that the present recession is much deeper than mainstream forecasters expected. It is much more difficult to persuade them of the possibility of spontaneous recovery, without specific government intervention, despite the evidence of every past recession.

Thus the best way to cheer readers up before Christmas is to remind them: "What goes down usually comes up" and I had thoughts of giving my article this title. The right background policies can help the self-corrective process. But knee-jerk reactions, such as reducing interest rates irrespective of what is happening to inflation, do not help.

Depreciation and monetary stimulation have usually led to more inflation without any enduring benefit to competitiveness, which simply becomes eroded by rising costs. Next time you hear somebody expounding eloquently on why sterling is too high, just ask him whether he has a real or nominal depreciation in mind; and how long he expects any competitive advantage to last.

In every recession one hears the cry (in a voice like that of Harold Macmillan) asking: "Where is the demand coming from, to bring recovery?"



The best chance of convincing people that there may be self-correcting forces is to look at the sources of the present downturn. I have taken for this purpose a good mainstream forecast, that of Phillips & Drew. This is not because I necessarily agree with its bottom-line forecasts – indeed I fear the recession may go deeper and hit bottom later – but because its projections are outlined with a good deal of detail and care for consistency and do display the proximate causes. Moreover, much of the period covered in the first three columns of the table has already passed and we are dealing with estimates of what has already happened or is in the pipeline.

The projections I have selected are not rates of change. They express instead contributions to the growth of real GDP. For instance in a normal year by far the largest contribution to the growth of demand comes from consumer spending, even if investment happens to be growing faster.

The first column of the table shows an average annual growth rate of 2.3 per cent in the decade up to 1989. In this period consumer spending contributed on average 2.4 percentage points. Fixed investment added 0.8 percentage points of demand. But this was offset by a leakage of demand into imports, shown in the table by a negative growth in "net trade".

Phillips & Drew expects total GDP to fall only by about 0.7 per cent in the year up to the first quarter of 1991. But even this drop reveals a drop of 3 per cent when it is compared with the normal trend rise of 2.3 per cent per annum. The second column shows the contributions which are expected from different components in the year up to the first quarter of 1991. But taken by themselves they are somewhat misleading. For instance consumer spending seems to be making a small but definite positive contribution. Nevertheless it is 2 percentage points less than in a normal year. It is thus a large factor in the expected falling off in real GDP.

An even larger contributor to the downturn is expected to be fixed investment. Stocks are also projected to take a substantial slice off normal demand growth. These last two items together reflect the severity of the squeeze on the corporate sector.

The redeeming feature is "net trade", reflecting an expected rise in export volume and fall in imports. This is the normal consequence of a recession which is much steeper in Britain than in other countries. It will not surprise followers of my teenagers' guides; and is still the most likely occurrence whatever the next set of highly volatile trade figures, out today, appear to suggest.

The final column shows the sources of recovery expected by Phillips & Drew in the year to the first quarter of 1992 on a basis comparable to the second column. I suspect that it will all happen a bit later and that fixed investment may recover less, but "net trade" not deteriorate quite so much.

But there is no need to argue about the basic forces making for spontaneous recovery. Consumer spending has been squeezed by high interest rates and high inflation. The recovery is based partly on an improvement in real disposable income as inflation falls back, and partly on a fall in the savings ratio, which has been rising rapidly in recent quarters, unnoticed by economic puritans.

The crucial elements, however, are a turnround in fixed investment and stock building. The assumption is that the corporate sector will have begun to rebuild its financial position by some mixture of the earlier investment and dividend curbs, and some combination of lay-offs and reduced pay awards.

In any case the recent increases in UK unit labour costs of 10 per cent per annum are too bad to last. They represent a combination of wage increases dating back to the inflationary boom, and the productivity slowdown characteristic of the early stages of recession. These particular forecasters are pessimistic about the pace of wage deceleration and expect most of the adjustment to come from lay-offs. If they are wrong there will have been a Thatcherite supply side miracle.

Of course we have to look out for the downside risk of falling investment leading to lower spending and still further cuts in business expenditure in a process of cumulative depression. Indeed, the world might exhibit many of these characteristics if a Gulf war delays or reverses the turndown in inflation while increasing the severity of recession. But on a slightly longer time span the link of ERM countries to Germany, via the DM, is an important safeguard. The expected German budget deficit of 5 per cent of GDP or more to finance unification will provide all the stimulus and more for which partner countries have been clamouring in the last decade. The much criticised trade surplus is vanishing and any Bundesbank tightening will no more than reverse a portion of the stimulus. There is still a silver lining for the UK if only the economic chattering classes can be kept at bay.

Forecast contributions to real GDP growth**

	10-year average % p.a. 1979-89	Contribution to growth 1st quarter 1990-1st quarter 1991	Deviation	Contribution to growth 1st quarter 1991-1st quarter 1992
Consumer spending	2.4	0.4	-2.0	2.2
Govt. consumption	0.2	0.3	0.1	0.5
Fixed investment	0.8	-1.6	-2.4	0.9
Stocks	0.0	-1.2	-1.2	0.7
Net trade	-0.8	2.1	2.9	-0.9
Statistical adjustment	-0.3	-0.7	-0.4	-0.3
GDP*	2.3	-0.7	-3.0	3.1

*Average estimate at factor cost.
**For explanation of table see text.
Source: Phillips and Drew

LOMBARD

The classless fallacy

By Charles Leadbeater

Mr John Major's aim of creating a classless society in Britain by the end of the decade has caused quite a stir. So it should, for in most respects it is complete nonsense.

The Tory leadership contest was a spectacle of instant downward social mobility. Mr Hurd, an Etonian grandee, recalled picking potatoes, while friends of Mr Heseltine, a millionaire educated at Shrewsbury public school, proudly recounted not his business successes but the traumas of his failures. Mr Major emerged as a trustworthy, approachable man who could be almost anyone's ideal next-door neighbour.

But it will take more than Mr Major's background and image to deliver a party and a government committed to the social reforms needed to create a society based on equality of opportunity and reward according to merit.

In the postwar era as a whole the political initiatives which have contributed most to social reform have stemmed from the traditions of Keynes and Beveridge, particularly in education and health. These were renounced by the Thatcher governments.

The welfare state is in urgent need of reform and good management. But under the Thatcher governments much of the public sector has fallen into disrepair. In many hospitals, health care has virtually come to an end. Instead nurses and doctors are only able to offer a safety net service of emergency care to the most urgent, life-threatening cases.

Mr Major will struggle just to arrest and reverse the divisive social policies of the past 10 years, let alone overcome the symptoms of class and privilege embedded in the public schools and inherited wealth.

Most importantly the smooth public relations of Mr Major's campaign pledges will have to be matched by substantive policies. He says he wants to make education a priority. The Tories have been saying that since 1983, with few tangible signs of progress.

None of this means that Mr Major's claim to want to create a classless society is devoid of meaning. It is just that he has in mind something less ambitious and more immediately political.

Mr Major is attempting to rebuild relations between the Tory party and its supporters among the affluent working class. These people provided the bedrock of support for Mrs Thatcher. The Tory party is in danger of losing their support largely because of the poll tax, high interest rates and slower growth in real incomes.

The prime minister's vision of a society based on individual responsibility and advancement through merit primarily appeals to these voters in the aspirant working class. An overwhelming majority are homeowners and many will become property inheritors. There is more social fluidity than there used to be; the old working class of the great manufacturing complexes and conurbations is passing away. Mr Major wants to reassure the affluent working class that the retrenchment of 1990-91 will just be a temporary hold-up in the accumulation of greater wealth.

Thus Mr Major's brave vision is just good politics, but no less significant for that. The fragmentation of the old working class is one of the main reasons why class is becoming less important in British society. However, that does not mean that inequality has ceased to be a social sore. Indeed in the past 10 years inequalities within Britain have widened considerably.

The measures announced on Tuesday to reduce homelessness in London are an indication of the selective and highly political nature of Mr Major's classless strategy. They may clear cardboard cities from the path of tourists in London, but will do little to attack the underlying causes of homelessness, or for people outside the capital.

The reality is that Mr Major's vision will be fashioned for the disgruntled homeowners of Essex rather than the people who sleep beneath railway arches each evening or the former inmates of mental hospitals who will continue to wander the streets in Mr Major's classless society.

LETTERS

Joining European union would compromise City's formula for success

From Mr Tim Lee.

Sir, Professors Artis and Taylor ("EMU: UK should be among the leaders", Letters, December 14) are surely wrong to argue that the City of London would be better placed if Britain is on the fast track to European union. The success of the City, particularly over the past 10 years, owes itself largely to the government's commitment to deregulated financial markets and a competitive tax regime. Britain's independent ability to maintain this commitment is almost certain to be compromised in any European union.

The editorial view expressed in the same edition ("Making the best of EMU"), that national fiscal sovereignty must be protected within the European union, is admirable, but will be impossible to achieve. How is Italy, for example, to finance its national debt now that its ability to tax has been severely reduced (by the single market) and once its ability to monetise deficits is removed?

There has been remarkably little discussion about the need for convergence of national fiscal policies ahead of union. In practice bankrupt governments will be bailed out once monetary union has taken place and over time the pressures leading towards a common, centrally-determined, European fiscal policy will be irresistible.

In this environment the City will have increasingly little to offer as a financial centre for Europe. Indeed, French and German financiers are already debating among themselves whether the financial centre of a united Europe will be in Paris or Frankfurt.

The City's interests would be better served if the UK remained outside a united Europe and the British government maintained sovereignty over national tax and regulatory policy. The transaction costs associated with having a different currency are minor compared to these considerations.

The view, so often heard, that the City, or indeed Britain, could not survive off the fast track to a united Europe is incorrect and dangerous. It is leading to a position in which Britain is being pushed towards a union which may not be in its interests, without the democratic consent of the British people.

Tim Lee,
Flat 3,
10-11 Courtfield Gardens, SW5

The losers in the battle at Waterloo

From P.A. Drew.

Sir, Why should I not be so convinced that the board of British Rail, in its meticulous and careful planning of the structural changes to Waterloo Station to accommodate the Continent, did not also plan the chaos and disruption to their passengers which has been the daily certainty and consequence?

It has now become necessary for many passengers, in planning their journeys on the already wretched Network South East, to allow an extra hour. To inflict this adversity on its passengers at a time when it is imposing substantial fare increases is wholly consistent with BR's total disregard for the standard of service it provides to the commuter. For journeys from Waterloo to Ascot, for example, a distance of less than 30 miles, to take two hours is surely a product of even more than the Network's customary incompetence.

Could it be that BR has now dropped its façade of concern for the traveller suggested by its "We're Getting There" campaign, and is now cynically provoking passenger protest as a means of exerting political pressure?

It would be interesting to learn the board's plans for further improvement.

P A Drew,
17 Church Hill,
Camberley, Surrey

Putting the record straight on nuclear building

From Mr John G. Collier.

Sir, How disappointing it was to read your report ("Pressure mounts over the nuclear question", December 17). This purports to review the prospects of new PWRs to follow Sizewell, but unfortunately is wrong in several aspects and confused about others.

On the question of building power stations successfully, the reality is that the last two completed by CEGB, Drax coal fire station and Heysham II AGR, were both essentially completed to time and cost.

The Sizewell B PWR was authorised by the CEGB in April 1987 against a committed programme of 72 months from the start of main construction to fuel load, which was 12 months shorter than the programme given to the Public Inquiry. Far from being late, the Sizewell project is 8 months ahead of schedule. The capital cost has gone up – as you say, mainly because all the launch costs must now be borne by Sizewell B, as the secretary of state for energy, Mr John Wakeham, has made clear on several occasions.

On your second and third points – the management of radioactive waste and decommissioning – our evidence to the Hinkley Point C Public Inquiry showed that for a PWR, which is less demanding than the existing gas-cooled stations, a cost for both combined was only of the order of 2 per cent of generation costs.

For the Magnox and AGR station, both requirements have been critically reviewed and our latest estimates indicate a combined figure of approximately 5 per cent of generation costs, which could well be lower if some of our most recent proposals are adopted.

We have, of course, a great deal to do to bring forward plans for future nuclear power stations for the Government 1994 review. New nuclear stations will be needed, we believe, for environmental, diversity and economic reasons. We would, however, like the public debate to be factual and balanced.

J.G. Collier,
chairman, Nuclear Electric plc
Barnett Way, Barnwood, Gloucester

Support for heat-power schemes a volte face for BG

From Mr Norman Jenkins.

Sir, British Gas appears to be making a determined attempt to dominate virtually the whole spectrum of energy.

Robert Evans' speech, at the Institute of Energy's "Electricity from Gas" seminar about seven weeks ago, promising every support (including finance) for virtually anyone entering the field of electricity generation, is surely a challenge that could lead to a head-long collision with the electricity services industry. His offer of comprehensive assistance to promoters of combined heat and power schemes of any size, "including district heating", is not only a reversal of the previous policy expressed in the minority report of Energy Paper 35 (Dr Clatworthy), but an acknowledgement of the ultimate practicability and economy of distributing heat at present wasted in generation – 50 to 70 per cent of the fuel.

One wonders whether the chairman of BG realises the consequences of his support for district heating. In the classic case of Brescia, Italy (pop. 200,000), which has a ring fence and enjoys the services of a Plc supplying all municipal engineering services, neither gas nor electricity as state industries get a look in. The Azienda Servizi Municipalizzati generates heat and electricity in a multi-fuel plant (choosing oil, gas or coal as market prices dictate; sufficiently economic to be shut down in summer), distributing to city and suburban areas as economy and engineering requires, operating city trams, buses, street and traffic lighting ... (There is, incidentally, a surplus of electricity in midwinter due to the energy system emphasis on heat.)

The key to our own energy/environment problem is there – in the distribution of otherwise wasted heat – at the expense of both gas and electricity used for space and water heating as we now know them. A volte-face indeed.

Norman Jenkins,
Whitehall, Bashot, Farnham, Surrey

FINANCIAL TIMES
Thursday December 20 1990

All Nippon Airways buys Boeings, Airbuses

By Paul Betts, Aerospace Correspondent, in London

ALL NIPPON Airways (ANA) yesterday became the second airline to acquire the new Boeing 777 twin-engine wide-body aircraft, at the same time placing the single biggest order to date by a Japanese airline for a European Airbus consortium aircraft.

ANA announced yesterday it was buying 25 Boeing 777 and 10 Airbus A340 four-engine long-range aircraft in a deal worth $5.6bn.

Boeing, McDonnell Douglas and Airbus had all been competing fiercely for the Japanese order.

The decision by ANA to opt for a mix of US Boeing aircraft and European Airbus airliners was seen as both a clever commercial and diplomatic move on the part of the Japanese carrier.

ANA follows United Airlines of the US in becoming the second airline to order the Boeing 777 which the US manufacturer launched last October.

Three leading Japanese manufacturing groups, including Kawasaki Heavy Industries, Mitsubishi Heavy Industries and Fuji Heavy Industries, are expected to complete an agreement early next year to take a 20 per cent risk-sharing stake in the $4bn Boeing 777 development programme.

The Japanese airline has placed 15 firm orders for the Boeing 777 and taken options on an additional 10 aircraft in a deal worth a total of about $4.1bn. It will start taking delivery of its 400-seat Boeing 777s in 1995. It plans to use them on domestic routes.

The Airbus deal involves firm orders for five A340s and options on an additional five worth a total of $1.5bn.

ANA will start taking delivery of its 236-seat A340s in 1996. It will employ the aircraft on long-distance international services.

Although smaller than the Boeing order, the Airbus deal is nonetheless significant in that it is the biggest single order to date for Airbus aircraft by a Japanese airline.

The US and the European Community have both mounted intensive lobbying campaigns in Japan to promote their respective aerospace products. But up to now, the US appeared to have wrapped up the Japanese airline market where only 16 out of a total of 271 aircraft flown by Japanese carriers are of European origin.

Airbus had also bitterly complained of US political interference when it lost a big Japan Air Lines (JAL) order to McDonnell Douglas earlier this year.

Before yesterday's ANA orders, European diplomats in Tokyo had suggested that a Japanese decision to buy Airbus aircraft would make Europe look more favourably on the issue of access to Japanese goods, especially automotive products, into the European market after the advent of the single European market in 1992.

But the deal is also significant for Boeing because it consolidates its ambitious Boeing 777 programme which will challenge the Airbus A330/A340 programme.

Lufthansa poised to take over Interflug

By David Goodhart in Bonn

LUFTHANSA, the German national airline, now looks almost certain to take over the struggling former east German airline, Interflug, early in the new year.

British and German aviation officials confirmed yesterday that Lufthansa was close to a deal despite continuing reservations from the German cartel office and the Treuhand, the trust body which currently owns Interflug.

British Airways had expressed a strong interest in taking a 49 per cent stake in Interflug, mainly because of its routes in eastern Europe. But it has been deterred from pressing ahead in view of the large investment required. BA executives also complain they have been denied access to the financial information needed.

BA has, in any case, now decided to establish its own Berlin-based German subsidiary in which it will own a 49 per cent stake.

The UK carrier's traditional right to fly to Berlin from other west German towns is being phased out in 1993. Lufthansa is now allowed to fly the inner-German routes to Berlin.

With BA almost certainly out of the running, there appears to be no alternative to a Lufthansa takeover despite resistance, on competition grounds, from the Bonn Economics Ministry, the cartel office and the Treuhand.

A Lufthansa deal is strongly supported by the transport ministry and, it now appears, by the ruling Christian Democrats.

Lufthansa's original proposal to take 26 per cent in Interflug, while east Germany remained an independent country, was withdrawn before it could be rejected by the cartel office.

Its subsequent plan, which is likely to form the basis of a deal, proposed that the German government – as ultimate owner of Interflug – should hand over the company to Lufthansa which would develop a reconstruction plan for the company, ensuring maximum job preservation. Then, with the help of independent auditors, a value for Interflug would be established and this would be paid to Bonn in the form of more shares in Lufthansa (it already holds 51 per cent).

Lufthansa claims that if a decision on Interflug's future is not made soon the company will disintegrate. Interflug is already expected to make a loss of DM130m-DM150m ($87m-$100m) this year.

There are also reports that a growing number of Interflug technicians are leaving to work for Lufthansa or other German-based carriers, calling into question its ability to keep its three Airbuses operational.

If Lufthansa does take over Interflug, some analysts believe it could be a pyrrhic victory for the German national airline. Lufthansa already suffers from high costs and this year is expected to report a loss running into hundreds of millions of D-Marks. The extra burden of rationalising Interflug may leave it in a poor shape to face the new wave of competition in the air expected in Europe after 1993.

UK plans curbs on marketing of credit

By David Lascelles, Banking Editor, in London

THE BRITISH government yesterday proposed tougher controls on the marketing of credit, including "health warnings" on loan agreements.

Mr Edward Leigh, consumer affairs minister, said consumers needed to be made more aware of the cost and risks of borrowing. The rules will include harsher penalties for lenders engaging in high-pressure or indiscriminate marketing of loans.

The proposals result from mounting government concern, expressed by Mr John Major before he became prime minister, about irresponsible credit marketing practices. He specifically attacked high pressure credit selling, and marketing loans to children.

The banking industry has responded to the criticism by publishing a voluntary code of practice which sets standards for lenders.

Although the banking industry knew the government was drawing up additional proposals, there is likely to be some disappointment at the toughness of what has been presented. The banks have consistently argued that the worst offenders are non-bank lenders and retailers who offer instant but costly credit.

The main points of the proposals, which will be out for comment until March, are:

- Advertisements for loans will have to warn consumers about the affordability of credit and the risks in loans which carry variable interest rates.
- Lenders will have to take reasonable precautions against sending credit offers to children or to people who have said they do not want to receive circulars.
- Customers will not be given unsolicited increases in their credit limits above the rate of inflation.
- Credit agreements will include a health warning such as:n "Do not sign this agreement unless you are sure that you can afford the payments".
- Lenders will not be allowed to use inertia selling techniques to sell payment protection insurance and other credit related services.
- The scope for a "cooling-off period" for borrowers will be widened.

The penalties for offenders will be a £2,000 ($3,860) fine or imprisonment, or both, for a summary conviction. The penalties on indictment would be higher. The rules will cover loans up to £15,000 ($28,950), including mortgages. They will also apply to all types of lenders, not just banks and building societies, but finance houses and retail stores.

Mr Leigh said yesterday that he was pleased by the code of practice. However, he believed it did not go far enough because it covered only banks and building societies while the problem was a wider one. The new regulations, which will be incorporated into the 1974 Consumer Credit Act, will be "complementary" to the code, he said.

Christmas crackdown on credit, Page 7

Britain suffers sharp fall in investment

By Peter Marsh, Economics Staff, in London

A SHARP FALL in investment across the economy this year has increased the prospect of the recession in Britain turning out longer and deeper than the government has acknowledged.

The fall for all UK investment of 3.8 per cent between the second and third quarters of 1990 was the biggest three monthly drop since 1985. It was spread across all major forms of capital spending, including plant, buildings and vehicles.

Separate figures by the Central Statistical Office showed that manufacturing investment is expected to fall by 7 per cent next year in volume terms, on a seasonally adjusted basis.

This year manufacturing investment is likely to fall by 3 per cent, ending several years of rising capital spending by manufacturers, culminating in record outlays in 1989. The findings will increase pressure on the government to cut the 14 per cent base rate to restore economic growth.

However, the government's room for manoeuvre on interest rates may be limited by the weak position of sterling within the European exchange rate mechanism (ERM).

Last night the pound closed at DM2.855, down almost 2 pfennigs on the day and roughly 10 pfennigs below its central DM2.95 ERM rate.

Investment trends are among the most widely watched indicators of economic growth because of the way they influence patterns of demand and expenditure several years ahead.

The figures for manufacturing are particularly relevant as this sector, even though it accounts for only about a fifth of the UK economy, has a big impact on other areas such as services which feed off production activities.

Separate figures from the CSO confirmed the extent of the recession. Total UK output decreased by 1.2 per cent between the second and third quarters of this year, while the service sector showed its first quarter-on-quarter decline for 10 years.

More evidence of the economic slowdown is likely to come today with the publication of the November figures on M0, which is the government's favoured monetary indicator and mainly comprises notes and coins in circulation.

The statistics are expected to show that M0 declined by about 0.2 per cent between October and November, illustrating how money is being squeezed out of the economy as the recession bites and inflation falls.

The cuts in manufacturers' capital spending disclosed by the government survey mirror Confederation of British Industry reports. These have showed manufacturers' confidence to be at its lowest level since 1980, a sharp change from a survey six months ago, which said that manufacturing investment was likely to rise 1 per cent.

Credit crackdown Page 7; Anatomy of recession, Page 17

Israelis voice concern over arms scandal

By Hugh Carnegy in Jerusalem

ISRAELI officials yesterday acknowledged deep concern about an emerging corruption scandal surrounding senior air force officers involved in arms procurement from the US.

It could have a damaging effect on the $1.8bn annual programme of US military aid to Israel.

At the same time, General Electric of the US said it had started an internal investigation into its dealings with "companies said to be involved in the Israeli investigation" and had informed "the appropriate US government agencies" of its move. The company declined to comment further.

Among a range of allegations widely reported yesterday by Israeli newspapers and state radio was the charge that Brig-Gen Rami Dotan, head of Israeli Air Force (IAF) procurement until he was arrested by military police at the end of October, had paid a junior IAF colleague to incapacitate an Israeli businessman in New York.

The businessman, who in the event was not harmed, was said to have drawn the attention of the Israeli authorities to irregularities in the IAF procurement programme.

This week the case has widened significantly with the further arrest of Col Yitzhak Sa'ar, chief IAF quartermaster, and two Israeli civilians involved in contract work for the air force.

No charges have yet been brought against the men. The authorities have so far confirmed publicly only that they are suspected of participating in a fraud involving kickbacks from air force contracts.

It has been made clear that the fraud covered IAF purchases from US defence contractors.

It is not clear how much money was siphoned off in the course of the alleged fraud. Officials have suggested it ran to tens of millions of dollars.

The affair has greatly embarrassed the defence establishment and especially the IAF, which regards itself as the elite force in the Israeli military. Gen Avihu Ben Nun, the IAF commander, yesterday told his officers: "Dotan betrayed us all, the air force and me personally."

The most serious aspect of the case is its potential implications for US-Israeli military relations.

The IAF receives the bulk of the annual $1.8bn US military grant, most of which must be spent in the US under the terms of the aid agreement.

The US embassy in Tel Aviv said it was following the affair closely. An official warned of its potential to become a "really big" bilateral issue. There is great sensitivity over the levels of US military aid to Israel.

"The Dotan affair may strengthen the arguments and positions of members in both houses of Congress who aim sometime to cut military aid to Israel, claiming that Israel does not take sufficient care that the aid is spent on what it was destined for," wrote Mr Ron Ben Yishai, military commentator for the newspaper Yediot Achronot.

Doubt cast on value of personality testing

By Simon Holberton in London

THE VALUE of psychological testing of employees has been called into question by two researchers who claim there is little evidence that personality tests can measure likely success at work.

About 50 per cent of companies in the UK which employ more than 1,000 people use personality tests at some point in their selection or assessment of employees.

However, in an article published in the latest issue of Nature, the science weekly, Mr Steve Blinkhorn and Mr Charles Johnson, both directors of Psychometric Research and Development, argue that the number of possible personalities mapped in a typical survey is so numerous as to make attempts to validate the tests suspect.

They also question the statistical robustness of the results produced by the tests and the hypotheses upon which some assessments are made. However, the hypotheses are misused, which the authors describe as "scandalous" and designed to "bamboozle an unsophisticated public with pseudoscience."

Mr Bill Mabey, a director of Saville and Holdsworth, a consultancy which specialises in personality testing, said that such testing, although flawed, was valid. "All procedures for assessing people are flawed."

Mr Mabey said tests had been shown to double the probability of selecting the right candidate for the job compared with the options, such as interviews, simulation exercises or simply one's impression of people.

However, the authors of the Nature article find some support for their views from the Industrial Society, a group formed to improve industrial performance in the UK.

Mr Alistair Graham, its director, said there was an urgent need for a code of practice to prevent testing being given a bad name.

"Companies use them with the best intentions, but our advice has always been not to put too much weight on the use of these tests in selecting people," he said.

Mr Blinkhorn and Mr Johnson write that the use of personality tests in industry may have value if they can identify a correlation between personality and likely performance. They add that their review of technical literature suggests there is little predictive power to the tests.

ICI and Solvay fined Ecu47m over cartel

Continued from Page 1

grant special permission to an export cartel of six US natural soda ash producers to sell to the EC.

The American producers argued that as the European market was already cartelised, their joint action was actually justified.

However, the US producers – kept out of the EC market until earlier this year by an anti-dumping duty – will be able to sell independently to the EC market.

Both Solvay and ICI figure frequently on the list of companies that have infringed EC competition rules in the past.

Most recently they were fined Ecu6m for abusing competition in the market for PVC.

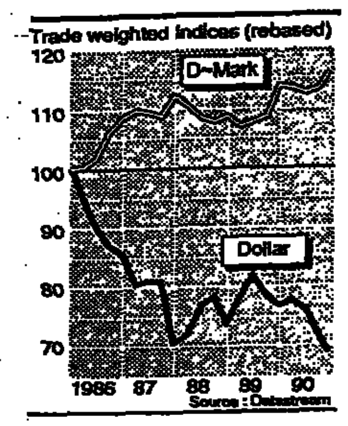
THE LEX COLUMN

A two-way stretch for sterling

The UK's membership of the ERM is proving tough going rather sooner than expected. Not only have the US authorities begun to cut interest rates, thus putting further downward pressure on the dollar. Today's monthly report from the Bundesbank also repeats in sterner and more explicit terms the warning that if the German budget deficit goes on rising – which seems pretty well inevitable – German interest rates are going up as well. Even before that, lower US rates and renewed rumours of a UK cut had yesterday pushed sterling down to within 4 pfennigs of its current ERM floor of DM2.8280 – the narrowest margin since the UK joined. Much more of this and the ability of the system to intervene on sterling's behalf is going to be tested for the first time.

That apart, the UK already looks like suffering what the bears of ERM entry had predicted all along – the effect on the traded goods sector of sterling being dragged up on the coat tails of a rising D-Mark while the dollar independently depreciates. There are already signs of rebellion against the D-Mark/dollar trend in some parts of German industry. But German manufacturers have the whole D-Mark zone of the ERM to play with, to say nothing of the emerging markets of Eastern Europe. Industry in the UK, with its historically stronger links to dollar markets, has a good deal more to lose.

All this makes it harder than ever for the UK government to convince the markets of its commitment to the system. It may indeed have embraced monetary rectitude regardless of the opinion polls. But if the markets are sceptical, they have history on their side.



Citicorp

Investors in bank shares are almost as perverse as bankers. When Citicorp announced in 1987 that it was writing off a chunk of its shareholders' funds to reflect the decline in value of its Third World loans, its shares jumped for joy. Now it is planning to cut its dividend by 44 per cent and its shares fail to collapse.

Only last week, Citicorp's shares were trading on a historic 13 per cent yield. Now they are yielding a prospective 7.4 per cent. It seems the equity market loves nothing more than the smack of firm management putting its problems behind it. How many times have we heard this before? Third World debt, Australian entrepreneurs, real estate, LBOs. As one hole is filled in, there is very nearly always another one just up the road.

Until the US authorities permit a substantial reduction in banking capacity by letting some of the famous names go bust, bank shares are going to remain an uncomfortable investment. In Citicorp's case, the US market was apparently encouraged by the fact that the extra provisions needed were not as big as feared. But then the same thing was said about the first round of Third World debt provisioning. Bankers are much better at losing money than making it.

Meanwhile, UK bank shares went up yesterday. They should have gone down. If there is one loud and clear message coming out of Citicorp's embarrassing about-turn, it is that banks are being required to stop paying dividends out of their capital. It is not only Standard Chartered and Midland which deserve to take note.

UK investment

An important point about yesterday's government survey of UK manufacturers' investment intentions next year is that replies to the questionnaire were made out in October. Anecdotal evidence from the corporate sector suggests companies began to feel the full force of the recession well before then, so their investment plans should already have been coming under severe review. Remember that the Confederation of British Industry's account of the third quarter said investment in late 1990 and 1991 should stay above the depressed levels of 1974 and 1980.

Yesterday's survey was slightly bleaker than that. Companies now expect direct capital expenditure to fall by around 9 per cent next year. Total investment in real terms would remain comfortably above 1974 levels and slightly above 1980. Nevertheless, the bad news still coming out of the third quarter suggests the serious possibility that the current recession is worse than that of 1980-81.

The downturn in corporate investment seems to be occurring in quite predictable areas, mainly new building work and vehicles. The only encouraging sign is a relatively steady rate of investment in plant and machinery, even if much of this was presumably committed in advance. The first half of next year will provide better evidence of the trend. But given the continuing gloomy picture on corporate liquidity, if investment is not cut, so much the worse for dividends.

BTR/Pilkington

BTR is displaying a rare talent for ambiguous public gestures. Eighteen months ago, when Kohlberg, Kravis, Roberts were hovering menacingly on the fringes of the BTR empire, Sir Owen Green mused vaguely in public about a possible unbundling. His shares shot up, Mr Kravis went home and BTR proceeded on its way. There is something curiously reminiscent of that in yesterday's news that BTR has taken a small extra bite, worth no more than £4m, out of Pilkington. If BTR seriously intended a second run at the glassmaker, its brokers could surely have picked up more than just an additional 0.35 per cent. And its incoming chief executive would have thought twice about telling the world a fortnight ago that he already had a big UK acquisition lined up.

In some eyes, of course, Pilkington is a sitting duck. It will be lucky to make £200m of taxable profits this year against £314m in 1989-90; the glass industry is locked into a cyclical downswing; and a successful bidder might sell its Visioncare lens business at a high multiple. Whether it is BTR's target is another matter. Political problems remain in bidding for Merseyside's last home-grown large manufacturer when unemployment is rising again. Nor is Pilkington the only big British manufacturing or building materials company which suddenly looks vulnerable. And it may simply be too early in the economic cycle to expect aggressive bids to recur: the world's automotive and construction markets still have a way further to fall.

WORLDWIDE WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	12	54	Berlin	Sn	0	32	Caracas	C	28	82	Faro	C	11	52	Islamabad	F	18	64
Algiers	-	-	-	Biarritz	C	4	39	Casablanca	C	15	59	Florence	S	8	46	Istanbul	F	13	55
Amsterdam	Sn	0	32	Bombay	S	28	84	Chicago	C	-1	30	Frankfurt	Sn	-1	30	Jakarta	R	31	88
Athens	C	13	55	Bordeaux	F	2	36	Cologne	Sn	-1	30	Geneva	Sn	1	34	Jersey	C	5	41
Bahrain	S	23	73	Boulogne	-	-	-	Copenhagen	C	1	34	Gibraltar	T	14	57	Johannesburg	S	26	79
Bangkok	F	34	93	Brussels	Sn	-1	30	Corfu	F	12	54	Glasgow	F	6	43	Lima	F	23	73
Barcelona	C	7	45	Budapest	C	2	36	Dallas	S	6	43	Helsinki	Dr	-1	30	Lisbon	R	8	46
Beirut	-	-	-	Buenos Aires	C	23	73	Dublin	S	3	37	Hong Kong	C	20	68	London	C	4	39
Belfast	S	4	39	Cairo	S	21	70	Dubrovnik	S	13	55	Innsbruck	S	-1	30	Los Angeles	F	11	52
Belgrade	C	4	39	Cape Town	68	low	20	Edinburgh	S	4	39	Inverness	R	5	41	Luxembourg	C	-3	27

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Madeira	-	-	-	Milan	Fg	-2	28	Nicosia	-	-	-	Salzburg	S	-1	30	Tenerife	R	16	61
Madrid	S	6	43	Montreal	-	-	-	Oporto	F	10	50	San Francisco	R	8	46	Tokyo	S	11	52
Majorca	F	14	57	Moscow	S	-7	19	Oslo	Sl	1	34	Seoul	S	3	37	Toronto	C	0	22
Malaga	C	14	57	Munich	Sn	-3	27	Paris	Sn	0	32	Singapore	F	27	81	Tunis	S	15	59
Malta	F	12	54	Nairobi	-	-	-	Peking	C	1	34	Stockholm	Dr	0	32	Valencia	S	8	46
Manchester	Fg	0	32	Naples	C	11	52	Prague	S	0	32	Strasbourg	C	0	32	Venice	S	6	43
Manila	F	31	88	Nassau	C	27	81	Reykjavik	F	-7	19	Sydney	C	22	72	Vienna	S	0	32
Melbourne	C	17	63	New Delhi	S	18	64	Rhodes	C	16	61	Taipei	C	23	73	Warsaw	C	-1	30
Mexico City	C	26	79	New York	C	9	48	Rio de Janeiro	F	37	99	Tangier	C	14	57	Washington	F	8	46
Miami	S	22	72	Nice	S	10	50	Rome	S	9	48	Tel Aviv	S	19	66	Zurich	C	1	34

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

FINANCIAL TIMES
COMPANIES & MARKETS

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INSIDE

United Scientific back in the black

United Scientific Holdings, the UK defence equipment group which narrowly escaped being taken over last year, has returned to the black. USH, in which IEP Securities – the investment vehicle of Sir Ron Brierley – has a near 29 per cent stake, made a pre-tax profit of £2.1m ($4m) for the 12 months to September 30, compared with a loss of £3.6m in the corresponding period. Turnover rose from £126m to £143m and the loss per share fell from 9.3p to 1.8p. Page 24

Savage saga comes to a head

Savage Group holds its annual general meeting today in London. In the last six weeks, under pressure from its largest shareholders, the USM-quoted hardware group has installed a new chairman and a new chief executive, and promised investors a new strategy. Despite turmoil behind the scenes and continued weakness of the do-it-yourself market, the value of the company has increased more than £5m since the beginning of November. Andrew Hill explains why. Page 21 25

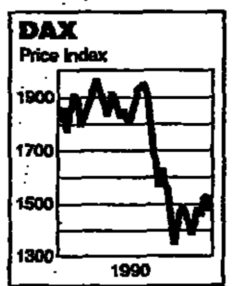
That icing on the cake

Chances are that those bright red holly berries decorating your slice of traditional, richly-iced cake this Christmas are in fact the crushd remnants of sex-crazed Peruvian butterflies (left). Dried cochineal, which looks reassuringly like pinkish-grey seeds rather than squashed beetles, is the raw material used to make the red colourant carminic acid, and can be found in a host of cosmetics, drinks, foods and textiles. Sally Bowen examines Peru's attempts to boost production of this natural colourant. Page 28

General Electric boosts European presence on board

General Electric, the US industrial combine yesterday gave the clearest signal yet of the growing significance of its European activities, with the appointment of Mr Paolo Fresco, the London-based head of its international operations, to its board. Italian-born Mr Fresco jointed GE in 1962 as a lawyer and has overseen several of the company's more important international initiatives including its purchase of an controlling interest in Tungsram, the Hungarian light bulb manufacturer. Page 20

Tumult on the bourse



The tumultuous year in German politics has been matched by an equally hectic 12 months on the bourse. An initial 10 per cent rise in the DAX index has since been reversed into a 20 per cent slump. Companies with weak overseas markets are increasingly feeling the pinch while domestic shares - those most likely to benefit from German unification - are set for impressive gains. Andrew Fisher in Frankfurt looks at some of the bourse's winners and losers. Page 37

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)				**PARIS (FFr)**			
Rises				**Rises**			
Rheinmetall B	308	+	13	BIC	535	+	27
Zanders Fein	219	+	9	Cetelem	478	+	18
Falls				Chargeurs	890	+	28
Deutsche Bab	142.5	–	4.5	Eurocom	665	+	25
Fag Kugel	243	–	7	Gen Geophys	774	+	29
Hoechst	1168	–	50	Vallourec	219	+	13
MAN	372	–	9.2	**TOKYO (Yen)**			
NEW YORK ($)				**Rises**			
Rises				Daito Wool	1000	+	100
BankAmerica	26⅛	+	1⅛	Sanshin Elec	2690	+	260
Man Hanover	22⅛	+	1¼	Taiko	1040	+	100
Falls				**Falls**			
Citicorp	13½	–	⅝	Descente	545	–	44
Digital Equip	58⅛	–	1	Toyo Engin.	1050	–	80
IBM	112⅝	–	½	Tsukamoto Sh	1020	–	130
Mocs Software	6½	–	2				
New York prices at 12.30pm.							
LONDON (Pence)							
Rises				Wills Corroon	289	+	7
Carlton Comms	377	+	14	**Falls**			
Courtney Pope	43	+	10	CSC Inv	85	–	5
Gen. Accident	493	+	10	Euro Leisure	28	–	12
Lloyds Bank	292	+	10	Firth (GM)	24	–	4
McCarthy & S	40½	+	3½	F.&M. Props	37	–	5
Mosaic Invs	283	+	13	Harrison Inds	57	–	12
Pilkington	182	+	10	Unitech	215	–	22
Sema	503	+	17	Utd Scientific	45	–	3
Storehouse	115	+	7				
Wellcome	483	+	20				

Belgian bank expands with FFr950m deal

By Lucy Kellaway in Brussels and George Graham in Paris

GENERALE de Banque, Belgium's biggest bank, is to pay FFr950m ($190m) for a 45 per cent stake in Banque Parisienne de Crédit (BPC), a subsidiary of Compagnie de Suez.

It is the Belgian bank's first big cross-border banking deal. Générale de Banque said it had the option to buy the rest of BPC over two years, although this would depend on the French bank's performance.

The deal – which confirms a general trend towards European banking before 1992 – fits with the declared strategy of Générale de Banque of extending its strong domestic business into neighbouring markets.

It comes more than a year after it called off more ambitious plans for a full merger with Amsterdam Rotterdam Bank of the Netherlands.

BPC, which has its main client base among small and medium companies in the Paris region, has always fallen outside the main orbit of Suez's banking interests. These are concentrated, through Banque Indosuez, on bigger corporate customers.

Selling off the bank will enable Suez to ease its financial position. The group has little debt, but has nevertheless been viewed as strapped for cash since the acquisition of its controlling stakes in Société Générale de Belgique and in Victoire, the French insurance group.

Suez is the majority shareholder in Société Générale de Belgique, which in turn owns some 18 per cent of Générale de Banque.

Officials rejected suggestions that the deal was simply a shuffling of assets around the Suez group. Although Générale de Banque is closely tied to Société Générale de Belgique, they said, it can by no means be regarded as a subsidiary.

BPC reported a 22 per cent advance in net profits last year to FFr138m, with total assets rising 11 per cent to FFr17.2bn and shareholders' funds up 14 per cent to FFr759m. The bank had to increase its bad debt provisions last year, but said that its risks remained well covered.

Mr Paul-Emmanuel Janssen, the bank's president, said BPC was exactly what he had been looking for, and that yesterday's agreement was a result of long drawn out talks with Compagnie de Suez which started in July last year.

He said there were no plans to change the way the bank was run or to make it expand into new business areas. However, he said that Générale de Banque could improve the business by introducing to it some of its established customers.

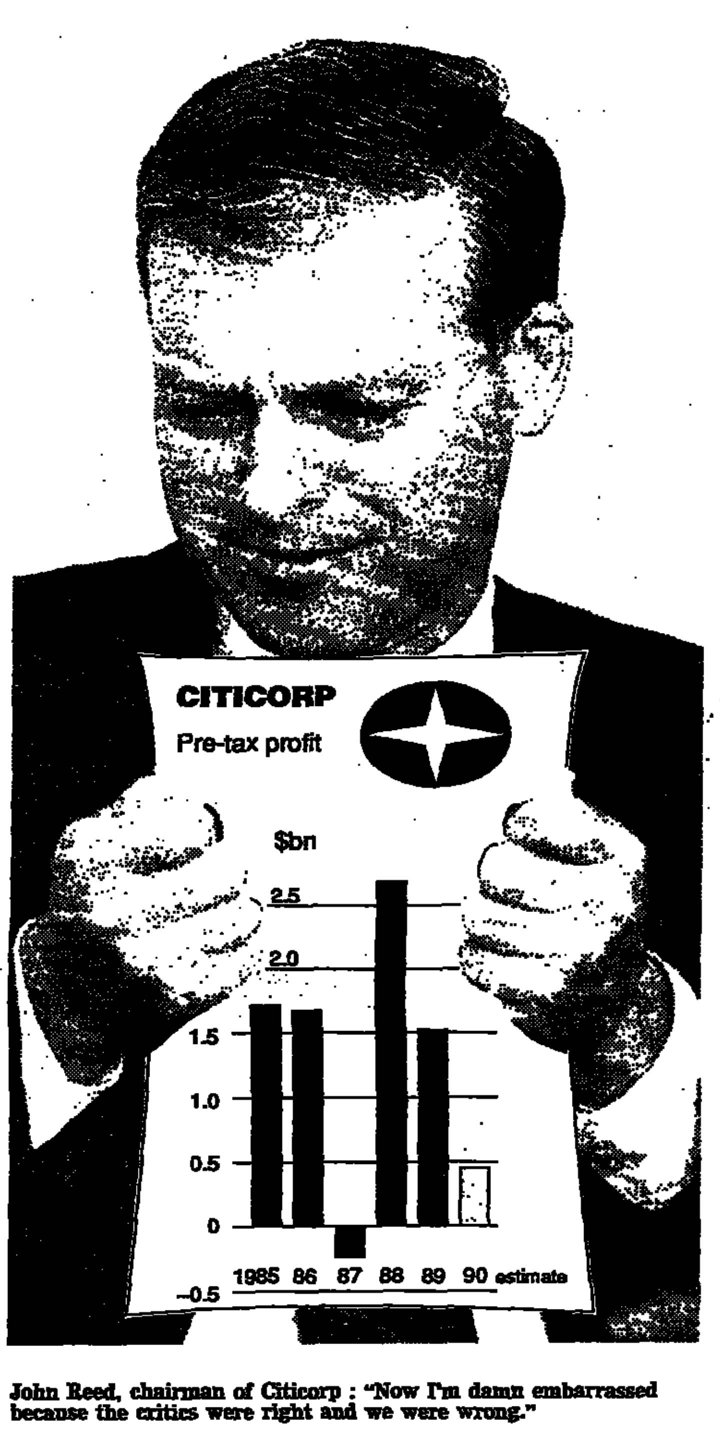
Belgian stock analysts yesterday commended the strategy behind the deal, but said that the price looked rather high. They also questioned the role of Suez.

"This looks like a way of passing money from one part of the Suez empire to another", an analyst commented.

However, Mr Janssen said that the talks had been conducted independently of Société Générale de Belgique, and that its directors had not voted at yesterday's meeting, to avoid any conflict of interest.

When Citicorp eats humble pie

Alan Friedman in New York reports on the woes of the biggest US bank



John Reed, chairman of Citicorp: "Now I'm damn embarrassed because the critics were right and we were wrong."

MR John Reed, America's most influential banker, made an unusual *mea culpa* recently.

"We were warned about real estate two years ago, we were warned again a year ago, and we pooh-poohed it," said the chairman of Citicorp in an interview last month. "Now I'm damn embarrassed because the critics were right and we were wrong."

Mr Reed, 51, was once the *wunderkind* of US banking. His successful 1980s strategy – building a technology-driven retail banking business that now supplies 60 per cent of Citicorp's core earnings – is not forgotten. But other problems have made him look a chastened man.

After his admission of the embarrassment about problem real-estate loans, he went on to deal with criticism of Citicorp's lower than average 3.8 per cent capital-to-asset ratio: "The capital thing," he said, "is also valid. Visibly, statistically, we look a little naked."

Despite this nakedness, Mr Reed was loath to cut Citicorp's dividend. Only a few days ago he insisted this method is a "highly inefficient" means of conserving capital.

This week, in a striking reversal of position, Citicorp announced plans to slash its 1991 dividend by 44 per cent and to shed 8,000 of the bank's 90,000 employees. In a terse statement the bank said it would suffer a fourth quarter deficit of up to $400m due to mounting bad-debt provisions and a $300m write-off caused by the job cuts.

As striking as the about-turn on dividends was Citicorp's sackcloth-and-ashes admission that it "has embraced the need to substantially strengthen its actual and relative capital position."

US banking regulators have been pressing banks to strengthen their capital. Citicorp's latest measures – including a $340m fourth quarter provision against possible loan losses – come at the end of a rigorous inspection by bank examiners.

The bank's commercial loan loss provisions are less than a third the level of those made by its main New York rivals, expressed as a proportion of non-performing loans. But management has insisted until now that they do not need to be increased. Analysts now say it is too early to tell whether the new loan loss provisions will be sufficient to deal with the continuing deterioration in the economy expected during the first half of 1991.

Citicorp's loan write-offs in the first nine months of 1990 totalled $2.29bn, of which $429m was made against commercial loans. The bank is likely to make fourth quarter commercial loan write-offs of $150m, hardly a large rise.

Citicorp is not the first big US money-centre bank to cut its dividend or slash its payroll. Problems at Citicorp inevitably win greater attention, however, than actions at other banks, such as the retrenchment at Security Pacific or the staffing cutbacks at Chase Manhattan. Citicorp, after all, serves one out of every four American households.

Of all international commercial banks, it has the widest global reach. Under the chairmanship of Mr Walter Wriston, who chose Mr Reed as his successor, Citicorp led the 1970s Charge of the Debt Brigade in Mexico, Brazil and Argentina.

Yesterday morning, with no irony intended, Mr Wriston penned an elder-statesman's article on banking in a US newspaper in which he admitted *en passant* that "capital strength is nevertheless an important element in the banking picture."

The capital issue is a symptom of Citicorp's problems. Of these the biggest – aside from concern that Third World loan loss provisions remain inadequate – is the impact of the real estate crisis. Some $2.2bn, or 16.7 per cent, of the bank's US commercial real estate portfolio is non-performing. This is the highest ratio of any of the big US banks and it may increase further in the next few months.

Insiders at Citicorp say senior management has been scrambling in recent weeks to deal with worsening problems. They say the bank's strategy for addressing its problems has been evolving very rapidly. A week ago Citicorp said it would sack 4,000 of its corporate banking staff; two days ago it doubled the number. The bank plans to sell off some assets next year and cut staff by natural wastage, thus paving the way for $500m of annual cost savings by 1992.

Citicorp serves one out of every four American households, so its problems win greater attention than those of other banks

The stock market is well aware of Citicorp's travails – its share price has fallen by half over the past 12 months, to $13¾ yesterday, down $¼ on the day. And analysts are sceptical about Citicorp's ability to face its problems quickly, especially as some say the bank still needs to increase its loan loss provisions by $2.5bn or more.

Mr Raphael Soifer, an analyst at Brown Brothers Harriman, said yesterday that Citicorp may not live up to its own advertising slogan, which claims the bank is "for those who want to succeed, not just survive." Citicorp is suffering from both a deep regional recession in the northeastern US and from its own internal problems, he says. "The company's survival is not in doubt, but the question is how can it succeed?"

Brown Brothers estimates that Citicorp needs to raise as much as $5bn of new equity in the next few years. If the bank cannot raise enough new cash by way of asset sales and its hoped-for international $1bn private placement of preferred stock, Mr Soifer says it will have to accept a reduction in size, abandoning some of its more far-flung ambitions to be both the leading US retail bank and a force in corporate finance in both the industrialised and developing world.

Analysts say the bank's package of measures this week has not been spelt out enough to allow them to make intelligent forecasts. Officials across the bank have been told not to comment on its present situation. Wall Street will have to wait until Citicorp's fourth quarter 1990 results are released after the New Year in order to see how much humble pie Mr Reed is really prepared to consume.

When Chemical Bank slashed its own dividend and revealed a big loan loss provision in October Mr Walter Shipley, the chairman, noted that the US economy was heading for a rocky period. He called the dividend cut "a conservative approach in a difficult environment." Mr Shipley and other top US bankers are convinced that a consolidation of the over-diffuse US banking system is inevitable, whether by mergers or other means.

In Washington, meanwhile, work is going forward on a package of banking reform measures that will be unveiled by President Bush in next month's State of Union address.

The next 12 months could see more pain, more loan losses and more staff cuts for big US banks. Citicorp's troubles are merely the most visible sign of the gloomy state of US banking: the benchmark bank has owned up.

Digital acquires control of Mannesmann computer side

By David Goodhart in Bonn and Martin Dickson in New York

MANNESMANN, the German engineering group, has sold a majority stake in the barely profitable computer business of its Kienzle subsidiary. The purchaser is Digital Equipment Corporation, of the US, the world's third largest computer business.

The computer business will become a new company, Digital-Kienzle Computer Systems, 65 per cent-owned by Digital and 35 per cent by Mannesmann. Digital has paid Mannesmann around DM350m ($235m) for its stake, which values the computer business, based in Villingen, southern Germany, at DM525m.

The deal is the largest investment outside the US by Digital, which has been expanding in both Western and Eastern Europe and recently opened a new semiconductor plant in Scotland. The Mannesmann company will add sales of about DM800m to Digital's existing DM1.75bn of revenues in the important German market.

Digital, which mainly supplies systems for large companies, said the deal would also continue its worldwide thrust into the small and medium-sized business market, which is where Mannesmann's sales are concentrated.

The move comes amid a two-year-long earnings slide at Digital, which is in the throes of a staff cutting and rationalisation programme. Mannesmann has been looking for a suitable purchaser or partner for the Kienzle computer business for over a year. The business, which specialises in retailing systems and medium-sized companies, has been suffering from severe price competition and, according to Mannesmann officials, lacked the size to become acceptably profitable on its own.

There was speculation that Kienzle might be merged with Nixdorf, which was subsequently taken over by Siemens, or be acquired by the Japanese computer group Fujitsu.

In 1989 the Kienzle computer business, with about 4,300 employees, had sales of DM800m and just broke even. The rest of the Kienzle subsidiary, originally acquired by Mannesmann in 1982, has 2,500 employees and sales of DM1bn.

Mr Werner Dieter, Mannesmann chief executive, said that broader co-operation with Digital was also being considered and mentioned the Mannesmann subsidiaries Rexroth and Demag.

Campeau losses climb to $477m

By Bernard Simon in Toronto

THE PROSPECTS for Campeau Corporation, the floundering Canadian real estate and retailing group, have darkened further with a 25 per cent increase in its losses so far this year, and the growing difficulty of selling properties into a sagging market.

Campeau, which is trying to wring concessions from its major creditors while its US department store subsidiaries reorganise under Chapter 11 of the bankruptcy code, suffered a US$477m loss in the nine months to October 31, up from $377m a year earlier. The loss per share grew from $8.77 to $10.62, which excludes $204m of interest on the unsecured debt of the department store groups, Allied Stores and Federated Department Stores. Revenues dipped from $7.04bn to $6.94bn.

The deterioration reflects poorer results both from Allied and Federated, and from real estate operations. Operating profit from the department stores fell from $440m to $261m, while the real estate business suffered a $12m loss, compared with a year-earlier profit of $117m. Reorganisation costs relating to the US subsidiaries totalled $72m.

The real estate reversal includes a $105m provision, the biggest component of which is a charge to reimburse Toronto developers Olympia & York for a shortfall in occupancy rates at Scotia Plaza, Campeau's 68-storey flagship development in downtown Toronto. O&Y bought a 50 per cent stake in Scotia Plaza three years ago, on terms that included a guarantee of a minimum occupancy rate.

The parent company has realised $135m from the disposal of real estate assets so far this year. But a Campeau spokesman said yesterday that sales "have not gone as well as expected" and the company was reviewing its restructuring plan. He said that creditors "don't want us to dump the properties on the market at any price".

He declined to give details of the revised plan, but said any substantial changes would probably be put before debenture holders and other creditors early in the new year.

Campeau's problems stem from its highly-leveraged $10bn acquisitions of Allied and Federated in the late 1980s, but have been compounded by the downturn in North American real estate markets. Its long-term debt stood at $2.6bn on October 31, plus $7.4bn of liabilities frozen by the Chapter 11 proceedings.

Campeau had an equity deficiency of $2.2bn on October 31, up from $1.7bn on January 31.

BTR raises its stake in Pilkington to 4.05%

By David Owen in London

SHARES of Pilkington climbed sharply yesterday on news that BTR, the UK industrial conglomerate, had raised its stake in the Merseyside-based glassmaker from 3.75 per cent to 4.05 per cent.

BTR's interest is a legacy of its contentious and unsuccessful £1.16bn ($2.24bn) bid for Pilkington launched in November 1986. Pilkington closed up 10p at 182p valuing the group at £1.35bn, while BTR was ahead 3p at 335p.

Rumours that the 164-year-old glassmaker was again "in play" have been swirling around a deal-starved City of London this year, encouraged by each new slide in the share price.

They were given further currency earlier this month when the group, which is the world's leading producer of flat and safety glass, reported a 30 per cent decline in interim profits to £103.2m.

BTR is regarded as one of a number of possible suitors along with Hanson and other leading European building products groups.

"This is not the only company where we have recently added to our holding," said Mr Christopher Bull, BTR's finance director. "At the price levels of the past few weeks, we regard Pilkington as good investment value."

BTR, which this month appointed Mr Alan Jackson to take over as chief executive in January, has hinted strongly that it retains acquisitive designs in spite of experiencing a disappointing year.

In April, it was thwarted by Saint-Gobain, the French chips glassmaker, in its efforts to buy Norton, the US abrasives group. In September, its shares fell sharply when it delivered only a 6.6 per cent advance to £530m in interim profits.

Less than two weeks ago, Mr Jackson himself said that he thought BTR needed a big UK acquisition. The 54-year-old Australian has earned a reputation as a formidable dealmaker during a long stint at the head of BTR Nylex, the group's Australian offshoot.

If BTR did make a second attempt to swallow Pilkington, the parallels with its previous effort would be striking.

That foray also came over the Christmas period, being abandoned by the group following a higher-than-expected Pilkington profit forecast in January 1987.

It was similarly launched in the period between the appointment of a new chief executive – in that instance, Mr John Cahill – and the date when he actually assumed his new duties.

For all that, it appeared at least as likely yesterday that BTR was attempting to flush out other suitors in the hope of selling its Pilkington shares at a satisfactory price.

Pilkington, for its part, said that it had "no information" about BTR's intentions.

"We made it clear four years ago that they were not welcome and our views have not changed," the group said.

GE's push into Europe underlined by posting

By Charles Leadbeater, Industrial Editor

GENERAL Electric, the US industrial combine, yesterday gave the clearest signal yet of the growing significance of its European activities with the appointment of Mr Paolo Fresco, the London-based head of its international operations, to its board.

Mr Fresco, an Italian who joined GE in 1962 as a lawyer in the company's Italian subsidiary, has overseen several of the company's most important international initiatives, including its purchase of a controlling interest in Tungsram, the Hungarian light bulb manufacturer; joint-ventures with the UK's General Electric Company; and the swap of several businesses with Thomson of France.

General Electric's sales in Europe have risen from $2bn in 1985 to about $6bn in 1989, with more than half of the sales supplied from European production sites. GE's employment in Europe has increased from 7,000 to 45,000 in the same period.

Mr Jack Welch, GE's chairman, said the addition of Mr Fresco's international expertise to the board was another step in GE becoming a global company.

DSM expects to agree to buy ACF Chemie early next year

By Ronald van de Krol in Amsterdam

DSM, the Dutch chemicals group, said yesterday it expects to reach agreement early next year on acquiring ACF Chemie, a maker of quinine and iodine-based products, from ACF Holding of the Netherlands.

ACF Chemie, which is based in Maarssen, near Utrecht, has annual sales of Fl 75m ($44.6m) and a workforce of 245.

The chemicals producer's activities, including its iodine-mining activities in Chile, are to become part of Andeno, a DSM subsidiary which specialises in producing chemicals for the pharmaceuticals industry.

DSM, which is not yet active in quinine and iodine derivatives, said the acquisition would bolster its position in fine chemicals.

Bourse-listed ACF Holding said yesterday that it also recently sold Industrie Chimiche Italiane, its Milan-based producer of bulk chemicals for the pharmaceuticals industry, to Chemind Holding, a Swiss investment group.

The Italian company has annual turnover of Fl 15m and 40 employees.

The two divestments mark the end of an extensive restructuring at ACF which has included the sale of its welding, sealing and coating businesses.

ACF declined to say how much it will receive for the latest two companies but confirmed that the proceeds would be below book value.

ACF, with annual turnover of Fl 1.1bn, is now concentrating on marketing and trading pharmaceuticals.

In 1989 it took full control over Brocacef, a major Dutch pharmaceuticals wholesaler, after buying out its joint-venture partner Gist-brocades, the Dutch biotechnology company.

ACF expects its net profit from normal business operations to total Fl 14m in 1990, reversing losses of Fl 8.4m in 1989.

French group expects net of FFr425m

SOCIETE Générale d'Entreprises, the French construction group 75 per cent owned by Cie Générale des Eaux, the water utility, said it expects 1990 attributable net profit will be at least FFr425m ($83m) compared with FFr382m in 1989, Reuter reports. The company said sales would be FFr37.75bn in 1990 compared with FFr34.64bn in 1989. In October, the company estimated sales of more than FFr38bn for 1990.

Skis Rossignol turns in loss of FFr11.97m

SKIS Rossignol, the French ski equipment group, has reported a loss of FFr11.97m (US$2.3m) in the six months to September 30 against a profit of FFr59.96m in the corresponding half last year. Turnover was FFr711.06m compared with FFr865.09m, Reuter reports.

The company expects a loss of at least FFr100m for the full year, compared with a previous year loss of FFr9.34m. Last month it forecast a loss of FFr85m for 1990-91.

The fall in turnover was mainly the result of unfavourable movements in exchange rates in the company's main currencies, chiefly the US and Canadian dollars and the yen, against the franc.

Landis & Gyr returns to black

By William Dullforce in Geneva

LANDIS & GYR, the Swiss building and energy controls group, yesterday reported net earnings of SFr20.3m ($16m) for the year ending September 30, thereby returning to the black after the SFr13.4m loss booked in the previous year.

Turnover rose by 8 per cent to SFr2.45bn. The board proposes to pay an unchanged dividend of 8 per cent, or SFr16 per registered share. A dividend of 10 per cent was paid in 1987-88.

The group, which had been experiencing declining profitability since 1985, is being restructured under new management put in place by Mr Stephan Schmidheiny, the Swiss industrialist, who took control at the end of 1987.

Operating income climbed by 55 per cent to SFr135m in the year to September 30.

Financial income, however, showed a decline of SFr29m, attributed to high interest charges, poor returns on investments and unfavourable exchange rates.

Restructuring costs amounted to SFr57m and the buying of new technologies had led to drawings on reserves.

But, Landis $ Gyr said in a letter to shareholders, these extraordinary restructuring charges would no longer be needed in the near future.

Incoming orders increased by 7.7 per cent to SFr2.54bn during the year.

Sales are expected to grow no faster than last year in 1990-91 because of recession in some key markets. But the management said it remained confident.

Philips settles with legal chief

By Ronald van de Krol

PHILIPS, the Dutch electronics group, has reached an agreement with Mr Hans Beekhuis, its chief legal officer, on terminating his employment following a dispute with the company's board.

Under an agreement ratified by both sides, his contract will be ended in June. The suspension from duties which was imposed last month will be formally lifted, but Mr Beekhuis will not be returning to his post, though he may act as an adviser to the company from time to time between now and mid-1991.

As part of the agreement, Philips and Mr Beekhuis have also pledged not to give details of the dispute that led to the termination of his contract.

In a statement the company said only that the row concerned "a difference of opinion about Mr Beekhuis's responsibility as chief legal officer".

Philips also expressed "deep gratitude" to Mr Beekhuis for his services over the past 26 years.

The dispute is thought to touch more on the scope of Mr Beekhuis's authority than on broader issues of company policy and strategy.

Philips is working on cutting 45,000 jobs worldwide in a bid to turn around its flagging fortunes.

Mr Beekhuis, 54, joined Philips in 1964 and became chief legal officer and the company general secretary in 1988.

Dyno Industrier in writedown

DYNO INDUSTRIER, the Norwegian diversified chemicals group, yesterday announced that it is to write down by NKr90m (US$15m) the value of its 50 per cent stake in Dyno Westfarmers, which has 35 per cent of the Australian explosives market.

Dyno explained that to turn the Australian company into a profitable unit "it has taken much longer and required a much larger investment than originally planned".

Dyno bought its stake in Dyno Westfarmers in 1988 from DuPont, but because of tough market competition and obligations to contracts which have low profit margins the company has struggled to return to profit.

Bass chairman's pay rises by 45%

By Philip Rawstorne in London

MR IAN PROSSER, chairman of Bass, the world's largest hotelier and the UK's leading brewer, received a 45.5 per cent increase in his total pay during the past year, from £285,610 to £415,717.

The increase reflected, in part, the introduction of a bonus system for executive directors and senior management based on cash flow and earnings per share.

During the year ended September 30 "an extremely well-controlled cash flow" had enabled acut in gearing from 100 per cent to 47 per cent, a company spokesman said.

Earnings per share grew by 18 per cent from 92.7p to 109.6p, in a year in which pre-tax profits advanced 15 per cent to £535m.

Mr Prosser also has options on 138,000 Bass shares. The company's annual report, published yesterday, shows that total bonus payments of £495,522 were divided between Mr Prosser and nine other executive directors.

Five executive directors receive total emoluments of between £155,000 and £235,000, and 441 of the 98,000 people employed by Bass now earn more than £30,000 a year.

Mr Prosser, who joined Bass as an accountant from Coopers & Lybrand in the early 1970s, was elected to the board at the age of 34 in 1979.

He became chairman three years ago, and last year launched the ambitious and successful $2bn bid for the US Holiday Inn hotel chain.

Market fears that the acquisition would prove a drag on Bass's performance were largely allayed by the full-year results announced two weeks ago.

London analysts judged the year's performance "sound and solid across all divisions".

Wheeling-Pittsburgh plan approved

By Nikki Tait in New York

WHEELING-PITTSBURGH, the US steelmaker, has finally secured court approval for its reorganisation plan.

This means that it will be able to emerge from bankruptcy proceedings five-and-a-half years after filing for protection from its creditors under Chapter 11 of the US bankruptcy code.

Judge Warren Bentz signed the court order on Tuesday, having indicated a week earlier that he intended to approve the plan.

Last-minute objections to the plan – which gives unsecured creditors back about 72 cents on the dollar – had been raised by the Environmental Protection Agency and by Farmers Home Administration.

Czech airline names adviser

CSA, Czechoslovakia's state-owned airline, said yesterday it had appointed JP Morgan as financial adviser on its proposed privatisation, writes Stephen Fidler.

Before it is privatised, CSA will be restructured along west European lines. Morgan, which was selected from six competing banks, will help CSA to restructure and to establish its value, before entering into talks with foreign investors.

CSA plans to replace the aircraft in its fleet, change its services and seek closer co-operation with western airlines, including the eventual possibility of their taking equity stakes in CSA.

INTERNATIONAL COMPANIES AND FINANCE

Primerica to buy MNC finance unit for $370m

By Nikki Tait in New York

PRIMERICA, the US financial services conglomerate, yesterday emerged as the buyer of MNC Financial's consumer finance subsidiary, Landmark Financial Services, in a $370m transaction.

Landmark specialises in fixed-rate, fixed-term property-secured and personal loans.

MNC, a Baltimore-based banking concern which owns Maryland National Bank, has been attempting to sell a major tranche of its assets – including its credit card operations – to improve its financial position.

The company said yesterday that it was required to pay off $271m of renewable notes next month, plus a further $315m of loans to a banking syndicate led by Morgan Guaranty.

The money raised from the Landmark transaction will allow MNC to reduce indebtedness by around $374m, but the company added that it hoped to make further asset sales.

MNC claimed it was still "in active negotiations" over the credit card unit, although a rival plan of selling the business via an initial public offer is also still "live".

For Primerica, the Landmark purchase comes about nine months after it acquired the consumer finance arm of Barclays American for $1.35bn. By November 1990, Commercial Credit, Primerica's consumer credit arm, had a $5.1bn portfolio and branches in 37 states.

The latest acquisition will expand Primerica's coverage in the south-east and mid-Atlantic coast areas, where Landmark has 116 offices.

In the deal, Primerica is acquiring $355m of net consumer receivables plus two captive affiliated credit insurance companies. It is paying a premium of around $7m over net tangible assets.

Not included in the purchase are Landmark's premium finance operation and second mortgage businesses. MNC said it hoped to sell these separately.

Renault chief nominates MD

By William Dawkins in Paris

MR Raymond Lévy, the chairman of Renault, has paved the way for his succession to a top job in French state industry by nominating Mr Louis Schweitzer as managing director of the government-owned auto group.

Mr Lévy, expected to retire when his three-year term of office runs out in May 1992, picked Mr Schweitzer, 48, from among three recently-appointed deputy managing directors.

The French President, rather than company chairmen, has the final say on appointments of the heads of state groups.

At the very least, Mr Schweitzer has been placed in the running for the Renault chairmanship. It is unusual for Renault, France's largest company, in turnover terms, to have a managing director in between the chairman and the deputies.

The other two are Mr Philippe Gras, who was promoted to his post in charge of technical development as Mr Schweitzer became a deputy managing director in charge of finance and planning in September 1989, and Mr Patrick Faure, promoted to deputy managing director in charge of sales last week.

A star product of the elite civil service college, the Ecole Nationale d'Administration, Mr Schweitzer was appointed to Renault, his first industrial post, shortly after the previous right wing government defeated the Socialists in 1986.

His father, Mr Pierre-Paul Schweitzer, was a head of the International Monetary Fund, and had two famous great uncles; the Nobel prize winning missionary, Dr Albert Schweitzer and the conductor, Mr Charles Munch.

Mr Schweitzer presided over Renault's financial recovery, which began in 1987 when it made its first profit for six years, though the group is forecasting a sharp drop in earnings for 1990.

He played a big part in negotiating the alliance with Volvo, the Swedish car maker, one result of which has been to loosen the state's close ties with Renault, a traditional symbol of French policy.

He was also in charge of Renault's attempt to become a partner of Skoda, the Czech carmaker, which chose Volkswagen instead.

Like many of France's top managers, Mr Schweitzer trained in public administration.

Setback for PepsiCo in Perrier battle

By William Dawkins in Paris

PEPSICO, the US soft drinks multinational, has hit a costly legal setback to its attempts to regain control of its French marketing from Perrier, the mineral water and cheese producer.

Perrier has appealed a Paris commercial court decision, issued last month, which gave PepsiCo clearance to end the French company's contract to bottle and distribute Pepsi-Cola in France. There are still 32 years to run on the 60-year contract.

PepsiCo wants to arrange its own distribution to try to halt a steady loss of the French cola market share to Coca-Cola, which last year took back its own distribution rights from Pernod Ricard, the French drinks company – after a long legal wrangle – and opened a bottling plant in Dunkerque.

Since last month's apparent legal go-ahead, PepsiCo has hired sub-contractors and a temporary French distributor, to which it will now have to pay penalties.

The US group will accordingly claim "substantial" extra damages on top of an existing claim against Perrier, said Mr Stuart Haugen, managing director of Pepsi-Cola France.

FT/AIBD INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 8:10 pm on December 19

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ABBEY NATIONAL 8 7/8 93	150	101	101½	+¼	8.33
ALBERTA PROVINCE 9 3/8 95	600	103¼	103¾	+¼	8.42
AUSTRIA 8 1/2 00	400	98⅝	99	+¼	8.72
BANK OF TOKYO 8 5/8 96	100	97¾	98¼	+⅛	8.88
BELGIUM 9 1/8 92	400	101¾	102¼	+¼	7.97
BFCE 7 3/4 97	150	96½	96⅞	+⅛	8.49
BNP 8 5/8 94	300	101¼	101⅝	+¼	8.19
BP CAPITAL 9 5/8 93	150	102¼	103¼		8.38
CANADA 9 96	1000	103¼	103½	+¼	8.19
CARCO 9 1/4 96	650	98¼	98¾	−⅛	9.64
CCCE 9 1/4 95	300	103¼	103½	+¼	8.32
COUNCIL EUROPE 8 96	100	97¾	98¼		8.47
CREDIT FONCIER 9 1/2 99	300	104¼	104½	+¼	8.76
DENMARK 0 98	250	52¼	53¼	+¼	8.78
DENMARK 8 1/4 94	150	99¾	100¼	+¼	8.27
ECSC 8 1/4 96	195	98¾	99⅛	+⅛	8.49
EEC 7 1/4 93	250	98¼	99¼	+¼	7.87
EIB 7 3/4 96	250	97¼	97¾	+¼	8.34
EIB 10 97	250	106½	106¾	+⅛	8.60
ELEC DE FRANCE 9 98	200	102	102½	+¼	8.60
EUROFIMA 9 1/4 96	100	102¾	103¼	+¼	8.53
EXPORT DEV CORP 9 1/2 98	150	104	104½	+¼	8.74
FINLAND 7 7/8 97	200	95¾	96¼	+⅛	8.77
FINNISH EXPORT 9 3/8 95	200	103⅝	104¼	+⅛	8.42
FORD MOTOR CREDIT 9 1/2 93	300	101¾	101⅞	+¼	8.91
GEN ELEC CAPITAL 9 3/8 96	300	102⅝	103	−¼	8.73
GMAC 9 1/8 96	200	99	99½	+¼	9.36
HALIFAX 9 1/2 93	200	102¼	102⅝	+⅛	8.42
IBM WORLD TRADE 7 5/8 93	150	98	98½	+¼	8.42
IND BK JAPAN FIN 7 7/8 97	200	95¼	95⅝	+¼	8.90
INTER AMER DEV 7 5/8 96	200	95¾	96¼	+¼	8.58
ITALY 8 1/2 94	1500	101	101¼	+¼	8.17
JAPAN DEV BK 8 94	150	99½	100	+¼	8.15
KANSAI ELEC PWR 10 96	350	104¾	105¼	+⅛	8.82
LTCB 8 5/8 93	150	100¼	100¾	+⅛	8.47
NEW ZEALAND 8 93	100	99¾	99¾	+¼	8.25
NIPPON CRED BK 9 3/4 93	150	102¾	103¼	+¼	8.53
NIPPON TEL & TEL 9 3/8 95	200	103¼	103½	+⅛	8.44
NORDIC INV BANK 9 93	200	102¼	102¾	+¼	8.00
ONTARIO HYDRO 11 5/8 94	200	106¼	106¾	−1⅛	9.17
OSTER KONTROLLBANK 8 1/8 95	200	100⅝	100⅞	+⅛	7.91
PETRO-CANADA 7 1/4 96	200	95	95¾	+¼	8.42
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Ford, VW increases denounced by Brazil

By Christina Lamb in Rio de Janeiro

THE BRAZILIAN government has declared 'war' on the country's powerful motor industry, denouncing the two biggest producers, Ford and Volkswagen, for what the finance minister described as "abusive price increases" undermining the battle against inflation.

Autolatina, the holding company for the two and Brazil's largest private company, may be placed on a government blacklist.

Ms Zelia Cardoso told reporters that the finance ministry would make a formal complaint to the justice ministry this week. She said: "In the past 50 days these companies have made price increases without any justification, abusing their economic power."

She added that the government was studying ways to minimise this power and tackling these price increase through moves such as further liberalisation of imports.

According to Mr Joao Maia, the national economy secretary, these measures include trying to end the monopoly of Autolatina, which controls almost 60 per cent of the market. He said: "We intend to legally examine the basis of Autolatina under anti-trust laws".

Mr Carlos Roberto Costa, spokesman for Ford, said the company was surprised by the minister's comments and had received no formal communication. "The first we knew of this was seeing the minister on TV," he said.

He added: "Today we're making a formal representation to the ministry to demonstrate that increases in the prices of our suppliers and in government tariffs made these increases necessary."

In fact, Autolatina has been losing money because of a 7.2 per cent fall in domestic sales. But Mr Maia insisted that there could be no justification in the companies' three increases of more than 50 per cent in the past 30 days.

He said: "These two producers are crying about the contraction of the market yet at the same time putting up their prices . . . this can only be an abuse of their monopoly."

NCR rejects prospect of white knight

By Alan Friedman in New York

NCR, the Ohio computer company which is the target of a $6.1bn hostile takeover bid from American Telephone & Telegraph (AT&T), has ruled out the prospect of a white knight stepping in.

Mr Charles Exley, NCR's chairman, told a committee of the Ohio Senate on Tuesday that his company "is not for sale to AT&T or anyone else".

He said NCR remained "resolutely opposed" to the AT&T bid and is determined to remain independent.

Mr Exley's statement – the first time he has explicitly ruled out a third party buying all or part of NCR – came just a day after AT&T increased the pressure by launching a full-scale proxy battle aimed at ousting the NCR board of directors at a special shareholders' meeting.

In recent weeks the NCR chief has hinted at "expressions of interest" from third party companies that could play the role of a white knight. But the company said that it is not interested in "a white knight, or a knight of any other colour".

Mr Exley used his local senate appearance on Tuesday to attack what he termed AT&T's record of failure in the computer business.

"Having lost an estimated $2bn and gained virtually no market share, AT&T now appears to have thrown up its hands," he said. "It wants to 'buy' expertise, in the form of NCR. The history of failure in such mergers has been devastating."

NCR's firm rejection of the bid and the AT&T proxy fight appear to set the stage for a protracted battle.

JVC reveals details of joint venture

THE VICTOR Company of Japan (JVC), which recently agreed to acquire the Hollywood entertainment group MCA, is to form a joint venture record company in Japan with MCA Music Entertainment, writes Alan Friedman.

JVC, which is 51 per cent owned by Matsushita Electric, will hold 25.5 per cent of the new venture, to be named MCA Victor. MCA Music Entertainment will hold 50 per cent while the remaining 24.5 per cent will be held by JVC's Victor Musical Industries subsidiary.

INTERNATIONAL CAPITAL MARKETS

Treasuries move lower as profit-taking dominates

By Karen Zagor in New York and Deborah Hargreaves in London

PRICES of longer-dated US Treasury bonds tumbled yesterday morning in quiet trading as the euphoria triggered by Tuesday's news of a lower discount rate gave way to profit-taking.

The Federal Reserve signalled that it had cut its target for Fed Funds, the rate at which banks lend to each other, by arranging $1.5bn in customer repurchase agreements when the funds were trading at 7⅜ per cent. The target for the funds is now thought to be 7 per cent, down from 7¼ per cent.

But the move was less aggressive than the 50-basis-point reduction that some players had hoped for, and at mid-session the Treasury's benchmark 30-year bond was down 1/32 at 106⅞, yielding 8.16 per cent. Profit-taking hit the long bond even before the Fed's intervention, when it was off about ⅜. Losses were less steep at the short end of the yield curve, where the two-year note lost only ⅛ to yield 7.16 per cent.

The market shrugged off the morning's economic news, which showed unexpectedly strong gains in housing starts for November. The downward revision in third-quarter GNP estimates, showing annual growth of 1.4 rather than 1.7 per cent, had no impact.

■ THE German government bond market slowed into seasonal lethargy yesterday as traders closed their books ahead of the year-end. The volume of futures contracts traded on Liffe fell to around 17,000 – almost half the amount that usually changes hands – as the market reacted almost exclusively to news from the US.

Cash prices for bunds were fixed 10 to 15 pfennigs higher, with the benchmark 9 per cent issue at 101.14 to yield 8.69. Traders expect to see the market stuck in a narrow range which could lead to switching between old and new issues in the run-up to the holiday.

The traditional New Year auction of bonds scheduled for December 27 could sell fewer bonds than usual, some traders believe. Given the proliferation of German paper in the market, the Bundesbank could restrict the bond sale to DM4-DM8bn rather than the usual DM12bn.

■ PRICES for Japanese government bonds continued to be strong, but fell back from their highs in later London trading. In Tokyo, the yield on the key 119 bond dropped to 6.91 per cent as rumours of a cut in the official discount rate by the Bank of Japan gained steam from the easing of rates by the US Fed.

However, many London analysts are more sceptical of a move by the Japanese bank, and do not expect it to do anything before February. The bank would not want to be caught out by a Gulf war and soaring oil prices, they argue. The yield on the 119 rose to 7.05 per cent in London as analysts pointed to the vulnerability of Japanese bonds.

■ IN THE UK, gilt-edged securities saw a slight rise in price early in the day on the back of the cut in US rates, but prices edged downwards for the rest of the day. Most analysts believe the UK market is ready for a downswing after its recent strength.

The price for the long benchmark bond maturing in 2003/07 was slightly up on the day at 107⅛, after opening at 107⅞ and making early gains. The yield on the bond was 10.61 per cent.

GOVERNMENT BONDS

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		13.500	08/92	103-02	+06/32	11.46	11.34	11.35
		9.000	03/00	90-18	+06/32	10.62	10.49	11.20
		9.000	10/08	90-08	+11/32	10.18	10.11	10.85
US TREASURY *		8.500	11/00	103-27	-07/32	7.93	7.93	8.35
		8.750	08/20	107-02	-10/32	8.12	8.06	8.48
JAPAN	No 119	4.800	6/99	88.1055	-0.045	7.05	7.09	7.65
	No 129	6.400	03/00	98.6343	-0.056	6.64	6.80	7.20
GERMANY		9.000	10/00	101.7500	+0.150	8.72	8.70	8.89
FRANCE	BTAN	9.000	11/95	95.6271	+0.037	10.16	10.12	10.20
	OAT	8.500	03/00	92.1600	+0.370	9.81	9.86	10.22
CANADA *		10.500	03/01	102.2500	+0.250	10.14	10.08	10.52
NETHERLANDS		8.250	11/00	101.2300	+0.100	9.01	9.00	9.14
AUSTRALIA		13.000	07/00	105.6248	-0.118	12.00	11.83	12.50
BELGIUM		10.000	08/00	100.3000	+0.150	9.83	9.87	9.72

London closing, *denotes New York morning session
Yields: Local market standard Prices: US, UK in 32nds., others in decimal
Technical Data/ATLAS Price Sources

Bonds draw foreign cash back into Germany

By Katharine Campbell in Frankfurt

FOREIGN investors have returned to the German government bond markets in recent months. Many are refugees from falling interest rates elsewhere, attracted by the strength of the D-Mark, according to the Bundesbank's December report released today.

Scared away early in the year by the fear of the runaway cost of German unification, foreigners sold large portions of their holdings, becoming net sellers of German securities worth DM6.7bn between March and June. This considerably added to the upward pressure on yields.

However, between July and October overseas investors bought a net DM6.8bn of bonds at a time when they were net sellers of DM4.6bn of equities in the aftermath of the Iraqi invasion of Kuwait.

While the gravity of the budget financing problem was, if anything, deepening – hard numbers were replacing general anxieties – the parlous state of the dollar and the potential for the D-Mark were beginning to make rising German bond yields relatively attractive. Foreign interest, while not actually pushing yields down, may have helped to stabilise the market at a time of domestic nervousness.

In the same period, a further DM3.9bn of foreign funds were attracted via Schuldscheine (promissory notes), largely paper issued by the German Unity Fund and the pre-unification east German government.

In today's report, the Bundesbank points out that the latter – privately placed and, unlike bonds, capable of being tailored to the needs of foreign investors – can be a useful tool for tapping fresh sources of finance at a time of heavy central funding requirements.

The central bank has issued a series of stern warnings to the Bonn government concerning the dangers of the burgeoning public sector deficit, currently officially estimated at DM140bn for 1991.

Wall St yields to Deutsche Bank

Patrick Harverson and Katharine Campbell on a bank's US ambitions

THE ascension of Deutsche Bank to the status of primary dealer in US government securities represents the end of a patient two-and-a-half year campaign by Germany's biggest bank.

Since August 1988, when Deutsche submitted its application to the Federal Reserve Bank of New York, it has been lobbying for membership of the elite group of companies allowed to deal in Treasury bonds directly with the Fed.

That Deutsche had to wait so long was not a reflection of its own abilities to operate effectively as a primary dealer, but a by-product of a much bigger issue: reciprocity between the US and Germany.

Until the middle of this year, German government bonds were issued according to fixed quotas through a consortium of predominantly German banks. American and other foreign banks were largely excluded.

However, the Bundesbank has, for some time, been keen to deregulate issuing processes. Since July it has been experimenting with auctioning a portion of issues, giving greater flexibility and access, without dispensing completely with the German consortium – although commissions have also been reduced.

The changes introduced by the Bundesbank have been welcomed by the US regulatory authorities. And in the Treasury department's report into the treatment of US companies in overseas financial markets, Germany was given a clean bill of health on the issue of reciprocity.

That was the signal the Fed had been waiting for and, a week ago, Deutsche was named a primary dealer. Mr Christian Strenger, managing director of Deutsche Bank Securities in New York, readily accedes that the changes introduced by the Bundesbank helped their case. "We feel the start-up of the auction system helped in the Fed's appraisal."

Bankers in Frankfurt also believe that Deutsche's keenness to operate in the US smoothed the transition to the new German system, which was hotly contested by many indigenous German banks worried about losing a large source of fee income.

Although Deutsche expressed delight at the Fed's decision to name it a primary dealer, it is taking up the role at a time when the bond market is in a trough. In the past year alone, five firms – Wertheim Schroder, Westpac Pollock, Midland Montagu, Drexel Burnham and the Bank of New York – have abdicated their primary dealer status. In 1989, two of the UK's big clearing banks, National Westminster and Lloyds, also threw in the towel.

What drove out most of these firms – and what puts a question mark over the ability of Deutsche to thrive as a primary dealer – is the intensely competitive nature of the bond market. The expansion in the number of primary dealers in recent years – Deutsche will bring the total to 41 – led to a dramatic narrowing of spreads as more firms fought over less business.

Consequently, margins were squeezed and profits plunged. A recent report by the Fed found that little more than half the primary dealers were making a profit on their government bond operations during the first 10 months of the year.

So how does Deutsche expect to benefit from its new role in New York? Mr Strenger concedes the spread on Treasuries is somewhere between "0 and ⅛", and that the profitability of the market leaves a lot to be desired; but he says the bank has different reasons for seeking dealer status.

"We see it as a very important cornerstone in our international capital market activities," he said. As one of the few remaining key houses in the primary market, our operation would not be complete without a front seat in the largest bond market in the world. Everything is priced off Treasuries, and so it is difficult to have a firm grip if you do not see the flows from the inside."

Deutsche will also benefit from access to a whole range of financial institutions which, as a matter of policy, do not conduct business with firms that are not primary dealers in US Treasuries.

One of the requirements for dealer status is that the firm secures at least 1 per cent of customer business in the Treasury market, a figure Deutsche has comfortably exceeded for at least 12 months.

Credit Local enters US municipal market

By Tracy Corrigan

CREDIT Local de France, the French municipal financing agency, is entering the US municipal bond market. It will specialise in credit enhancement, and possibly direct loans, for infrastructure financings primarily in the public sector.

Yesterday, CLF issued its first letter of credit, for a $55m issue of variable rate demand notes due 2010 for the Town of Babylon Industrial Development Agency, via Donaldson, Lufkin & Jenrette. The five-year letter of credit, subject to annual renewal, covers liquidity as well as credit. The notes will be rated Triple-A by Moody's, and carry the top liquidity rating, VMIG1.

Investors have become increasingly concerned about credit quality, particularly after a weakening of some US municipalities' credit ratings.

This is forcing more municipalities to seek some form of credit enhancement, either from a letter of credit or from insurance.

The leading specialist municipal bond insurer, Municipal Bond Insurance Association, is 4.7 per cent owned by Credit Local. The two companies will be working closely, according to CLF.

A number of triple-A rated European banks, such as Union Bank of Switzerland, are already active in the US municipal bond market. Over $100bn of municipal bonds, which are tax-exempt for US investors, are issued every year.

With a strong capital adequacy position and a AAA credit rating, Credit Local hopes that bonds supported by its letter of credit will be among the best performers.

US corporate issues down 30% in quarter

By Simon London

CORPORATE bond issues in the US debt market fell dramatically in the fourth quarter of this year, contributing to the first annual decline in bond issues since 1987.

Corporate bond issues fell by 29.7 per cent during the last three months of this year, compared with the same period in 1989, according to provisional figures from IDD Information Services.

For the year as a whole, $301.4bn of corporate bonds have been issued in the US, a decline of 2.5 per cent on last year.

The biggest annual drop in new issue activity was by industrial companies, where the amount raised in the market fell by almost a third compared with last year.

The only economic sector to register a gain was financial services, including banks, where bond issues rose from $210.8bn to $226.8bn – a rise of 7.8 per cent.

The decline in bond issuance has also hit at the underwriting fees earned by the top investment banks. Some of the most profitable business, such as junk bond financing and equity offerings, have been hardest hit during the past 12 months. Increases in some areas, such as asset-backed and mortgage-backed financing, did not take up the slack.

Total underwriting fees fell by 40 per cent to $1.9bn in 1990, against $3.1bn in 1989.

Merrill Lynch tops the league table of banks active in the US bond market once again, managing $53.5bn of bond issues or 17.7 per cent of all new issues. Goldman Sachs was the second most active firm, and Salomon Brothers third.

Bout of selling hits Eurodollar sector

A BOUT of year-end selling hit the Eurodollar sector of the international bond market yesterday, as investors took profits following the recent rally in dollar bond prices, writes Simon London.

Traders reported an unusually active days' business, with selling pressure across the yield curve. At most maturities, spreads over US treasury paper widened by around two basis points.

However, many Eurodollar bond issues now stand at very wide spreads by historic standards. This could attract money into the market in the New Year.

Yesterday's decision by the US Federal Reserve to cut the discount rate to 6.5 per cent should cause the Eurodollar yield curve to steepen as yields fall at the shorter maturities.

In the primary market, the yen sector once again provided the only new issue of the day. Interfinance Credit National launched a Y3.5bn issue lead-managed by LTCB, with a complex fixed/floating coupon structure and redemption linked to the Nikkei stock market index.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

	EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Wed Dec 19 1990 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%)	Est. P/E Ratio (Net)	xd adj. 1990 to date	Tue Dec 18 Index No.	Mon Dec 17 Index No.	Fri Dec 14 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (196)	727.33	+0.9	14.62	6.56	8.35	35.31	721.17	722.69	726.97	900.42
2	Building Materials (26)	980.79	+1.4	14.69	6.23	8.38	45.71	966.78	973.97	983.88	1072.06
3	Contracting, Construction (34)	1137.82	+0.5	16.43	7.07	7.91	59.58	1132.67	1137.77	1144.13	1468.87
4	Electricals (10)	1943.48	+0.9	14.46	6.87	8.46	99.22	1926.78	1923.77	1920.07	2634.28
5	Electronics (26)	1559.01	+0.7	10.25	5.52	13.00	61.02	1548.10	1555.47	1559.96	1900.84
6	Engineering-Aerospace (8)	402.03	+0.5	16.70	6.07	7.18	17.27	400.22	401.90	402.31	0.00
7	Engineering-General (48)	368.33	+0.6	15.77	6.96	7.65	19.28	366.02	365.47	368.85	0.00
8	Metals and Metal Forming (8)	404.27	+0.3	22.48	8.51	5.49	25.45	403.16	401.16	401.33	473.78
9	Motors (13)	299.88	+2.0	16.65	8.02	7.00	17.45	294.06	292.53	294.48	375.39
10	Other Industrial Materials (23)	1268.02	+0.7	13.29	6.45	8.70	62.67	1259.18	1259.43	1268.38	1724.63
21	CONSUMER GROUP (178)	1238.51	+0.7	9.94	4.19	12.50	38.20	1230.28	1229.37	1232.44	1311.24
22	Brewers and Distillers (22)	1615.59	+0.9	10.08	3.85	12.21	42.93	1601.81	1588.65	1591.17	1528.25
25	Food Manufacturing (19)	1040.99	....	11.15	4.75	11.05	34.87	1041.36	1039.76	1039.25	1141.97
26	Food Retailing (16)	2316.83	+0.9	9.71	3.25	13.45	64.97	2297.05	2292.39	2286.52	2281.64
27	Health and Household (18)	2575.71	+0.5	6.94	2.94	17.08	59.28	2564.03	2569.38	2573.77	2683.02
29	Leisure (32)	1221.87	+0.3	12.16	5.47	9.98	48.00	1217.94	1218.82	1221.36	1652.48
31	Packaging & Paper (12)	524.88	+1.0	12.23	6.63	10.03	24.32	519.72	519.20	523.28	548.99
32	Publishing & Printing (13)	2985.95	+1.2	12.04	6.35	10.40	140.95	2951.55	2963.39	2971.70	3787.85
34	Stores (34)	786.84	+1.2	10.85	4.64	11.97	25.73	777.68	781.08	789.60	786.54
35	Textiles (12)	408.19	+1.0	14.27	8.70	8.99	27.62	404.00	402.49	402.87	517.38
40	OTHER GROUPS (105)	1024.20	+0.6	12.44	5.64	9.72	35.54	1018.57	1015.75	1020.61	1171.82
41	Agencies (14)	926.93	....	11.47	3.62	10.56	25.06	927.15	933.10	929.29	1548.83
42	Chemicals (24)	1075.72	....	12.58	6.27	9.38	51.96	1075.21	1067.46	1075.64	1227.24
43	Conglomerates (13)	1307.64	+1.4	13.47	7.65	8.84	45.14	1289.15	1295.21	1318.08	1609.68
44	Transport (15)	1922.51	+0.7	13.54	5.34	9.08	79.19	1909.66	1897.56	1921.40	2268.93
46	Telephone Networks(3)	1180.75	+0.6	11.33	4.28	11.48	27.94	1174.13	1170.98	1162.77	1205.22
47	Water(10)	2170.74	-0.7	14.43	6.45	7.82	68.12	2187.12	2165.47	2166.86	0.00
48	Miscellaneous (26)	1601.16	+0.8	11.70	5.55	9.93	66.29	1587.87	1582.23	1595.39	1920.71
49	INDUSTRIAL GROUP (479)	1048.15	+0.7	11.73	5.16	10.45	37.64	1041.14	1040.35	1044.47	1179.00
51	Oil & Gas (21)	2322.14	+0.2	9.63	5.49	13.56	95.42	2316.97	2296.56	2287.22	2398.58
59	500 SHARE INDEX (500)	1153.01	+0.6	11.41	5.21	10.82	42.32	1146.08	1143.81	1146.94	1280.69
61	FINANCIAL GROUP (102)	720.61	+1.2	–	6.65	–	35.36	712.10	713.84	726.56	841.59
62	Banks (9)	759.18	+2.0	21.22	7.63	6.17	43.40	743.96	751.68	774.00	857.59
65	Insurance (Life) (7)	1299.89	-0.5	–	5.91	–	55.82	1305.90	1309.31	1318.25	1423.95
66	Insurance (Composite) (6)	630.29	+1.6	–	6.78	–	32.08	620.32	617.84	629.39	740.20
67	Insurance (Brokers) (8)	1008.01	+1.7	7.51	6.42	17.45	48.39	990.99	973.35	975.72	1146.10
68	Merchant Banks (7)	355.79	....	5.48	5.78	24.35	15.48	356.00	356.62	356.51	471.75
69	Property (44)	984.43	+0.6	7.17	5.06	18.87	35.10	978.48	976.18	986.73	1225.00
70	Other Financial (21)	255.25	....	10.81	7.11	11.70	14.00	255.21	254.86	255.39	332.28
71	Investment Trusts (70)	1015.18	+0.4	–	3.98	–	29.58	1010.72	1013.67	1020.25	1283.49
91	Overseas Traders (5)	1188.95	+0.6	12.01	7.77	9.92	70.90	1182.35	1169.64	1172.70	1523.00
99	ALL-SHARE INDEX (677)	1046.13	+0.7	–	5.40	–	40.20	1039.03	1037.71	1042.90	1176.10

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Dec 18	Dec 17	Dec 14	Dec 13	Dec 12	Year ago
FT-SE 100 SHARE INDEX‡	2178.7	+16.9	2179.1	2165.4	2161.8	2157.9	2168.4	2172.2	2156.9	2360.7

FIXED INTEREST

	PRICE INDICES	Wed Dec 19	Day's change %	Tue Dec 18	xd adj. today	xd adj. 1990 to date
	British Government					
1	Up to 5 years	118.60	+0.13	118.94	0.49	12.54
2	5-15 years	128.00	+0.24	127.91	0.21	13.63
3	Over 15 years	131.69	+0.33	131.26	–	11.90
4	Irredeemables	148.44	....	148.44	–	13.70
5	All stocks	126.97	+0.20	127.01	0.30	13.25
	Index-Linked					
6	Up to 5 years	156.86	-0.05	156.94	–	3.04
7	Over 5 years	144.15	-0.06	144.22	–	3.82
8	All stocks	144.98	-0.05	145.06	–	3.75
9	Debentures & Loans	104.00	+0.12	103.87	–	11.35
10	Preference	74.09	+0.17	73.96	–	6.66

	AVERAGE GROSS REDEMPTION YIELDS		Wed Dec 19	Tue Dec 18	Year ago (approx.)
	British Government				
1	Low	5 years	9.82	9.83	10.15
2	Coupons	15 years	10.13	10.16	9.53
3		25 years	10.15	10.18	9.45
4	Medium	5 years	10.97	11.02	11.03
5	Coupons	15 years	10.46	10.49	9.96
6		25 years	10.28	10.30	9.62
7	High	5 years	11.08	11.13	11.18
8	Coupons	15 years	10.64	10.66	10.16
9		25 years	10.42	10.43	9.75
10	Irredeemables†		10.33	10.33	9.63
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	4.02	3.99	3.81
12	Inflation rate 5%	Over 5 yrs.	4.15	4.15	3.59
13	Inflation rate 10%	Up to 5 yrs.	2.64	2.60	2.88
14	Inflation rate 10%	Over 5 yrs.	3.96	3.95	3.41
15	Debs &	5 years	12.53	12.63	13.33
16	Loans	15 years	12.33	12.37	12.51
17		25 years	12.13	12.14	12.04
18	Preference†		12.77	12.79	10.80

‡Opening index 2171.9; 9 am 2169.1; 10 am 2166.8; 11 am 2168.9; Noon 2168.7; 1 pm 2171.8; 2 pm 2174.0; 2.30 pm 2173.6; 3 pm 2174.3; 4.10 pm 2179.1; (a) 4.10pm (b) 10.09am † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 35p. YEAR END RECLASSIFICATIONS: 48 changes are tabulated on page 18 of the December 10th issue of the Financial Times.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	59	14	13
Corporations, Dominion and Foreign Bonds	5	0	16
Industrials	325	205	1,032
Financial and Properties	158	68	523
Oils	14	28	51
Plantations	1	0	9
Mines	27	22	104
Others	75	55	86
Totals	664	392	1,834

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amt Paid up	Latest Renunc. Date	1990 High	1990 Low	Stock	Closing Price p	+ or -	Net Div	Times Cov'd	Gross Yield	P/E Ratio
100	F.P.	–	100	97	Aberforth Smaller Co.	98	-1	–	–	–	–
–	F.P.	–	30	28	Do. Warrants	30	+2	–	–	–	–
240	100	–	169	141	East Midlands Elect. 50p	151	+3	R15.04	1.7	6.9	10.2
240	100	–	149½	140	Eastern Elect. 50p	143	+½	R14.45	1.6	6.8	10.8
§100	F.P.	–	103	98	‡Eidos 10p	98	-5	–	–	–	–
2	F.P.	–	4½	3	Finlan Group 1p	3		–	–	–	–
240	100	–	152½	138	London Elect. 50p	146		R14.9	1.7	6.9	10.1
–	F.P.	–	22	19	‡MMI 1p	19		†1.0	2.4	7.0	7.3
240	100	–	179	159	Manweb 50p	175	+2	R16.0	1.8	6.8	9.5
240	100	–	159½	137	Midlands Elect. 50p	145	+1	R15.04	1.8	7.0	9.3
240	100	–	157½	139	Northern Elect. 50p	146	+2	R16.25	1.9	7.6	8.3
240	100	–	156	146	Norweb 50p	153	+2	R15.63	1.7	7.1	10.7
†	F.P.	–	17	8	‡Paramount 2½p	9½		–	–	–	–
†	F.P.	–	53	31	‡Pelican 20p	33		–	–	–	–
£2400	1000	–	£1600	£1450	Reg. Elect. Pkg. Unit	£1523	+8	–	–	–	–
240	100	–	152	139	Seeboard 50p	150	+1	R14.76	1.7	6.8	10.9
§100	F.P.	–	96	68	Smaller Cos. Inv. Tst50p	70		–	–	–	–
–	F.P.	–	23	16	Do. Warrants	18		–	–	–	–
240	100	–	170	159	South Wales Elect. 50p	167		R15.96	1.9	6.9	9.4
240	100	–	158	144	South Western Elect. 50p	151	+1	R15.2	1.6	7.0	11.0
240	100	–	157	142	Southern Elect. 50p	146	-1½	R14.45	1.6	6.7	10.7
50	F.P.	–	45	38	Trio Inv. Tst.	43	+2	–	–	–	–
–	F.P.	–	11	5	Do. Warrants	9	+2	–	–	–	–
†	F.P.	–	126	109	Unichem 10p	117		R4.5	2.5	5.1	8.8
240	100	–	173	152½	Yorkshire Elect. 50p	169½	+1½	R15.44	2.1	6.7	8.9

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1990 High	1990 Low	Stock	Closing Price £	+ or -
100p	F.P.	-	100¼p	99¼p	Bank of Scotland 9¼pc Non Cm Pf £1	100¼p	+¼
100	F.P.	-	101	60	‡Bluebird Toys 12pc Cv. Uns. Ln. 2005	65	+5
-	-	-	86	68	Brent Walker Capital 13pc Cv Cap Bd	86	
§	P/P	29/11	38p	32¼p	‡Greenacre Group Cv. Rd. Prf. 70p	35p	
35	-	-	32½	30½	Grovewood Securities 8pc Cv Ln 2000	32½	
100p	F.P.	28/9	104p	91p	Perkins Foods 8p (Net) Cv Rd Pf	103p	+1
100p	F.P.	-	121½p	106p	Reckitt & Colman 9.5pc Cv Bds 2005	121½p	+1½
100p	F.P.	-	102p	96p	TT Group 10¾pc Cnv. Red. Prf. 1997	100p	-1
100	F.P.	-	110½	101¼	Tesco Capital 9pc Cnv. Cap. Bd. 2005	106¼	
100p	F.P.	-	110p	103p	Worcester Cm Rd Cv Pf	108p	
100p	F.P.	-	105p	43p	Wyndham Group 9.375pc Cm.Pf	50p	

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1990 High	1990 Low	Stock	Closing Price p	+ or -
170	Nil	-	23pm	18pm	Control Techs. 10p	18pm	-2
45	Nil	-	4pm	3pm	Excalibur Group 5p	3pm	
240	Nil	-	20pm	2¼pm	Harvey & Thompson 20p	4pm	+1¼
65½	Nil	-	½pm	¼pm	Intl. Bus. Comms.	¼pm	-¼
5	Nil	-	¼pm	¼pm	‡Merchant Man. Est. 'A'	¼pm	
6	Nil	-	½pm	¼pm	‡Surrey Group 5p	¼pm	

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. u Earnings based on preliminary figures. s Dividend and yield exclude special payment. a Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1990-91. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1990. N Dividend and yield based on prospectus or other official estimates for 1989/90. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ψ Issued by tender. ‡ Offered to holders of ordinary shares as a "rights". † Introduction. § Placing price. †† Reintroduction. ‡ Unlisted securities market. ° Third Market. ♦ Issued in connection with reorganisation, merger or takeover.

TRADITIONAL OPTIONS

- First Dealings Dec. 17
- Last Dealings Jan. 4
- Last Declarations March 27
- For settlement April 8

For rate indications see end of London Share Service

Calls in Acsis, Berisford Intl., Ford Sellar Morris Props., Kunick and Meekatharra. Puts in Ford Sellar Morris Props., Lex Service and Shandwick.

LONDON TRADED OPTIONS

Futures and options market continued to trade actively yesterday as investment institutions used the derivatives sectors to dress up their portfolios for the year-end, which will in, many cases, effectively arrive at the close of business today.

The premium on the FT-SE December futures contract shrank to 14 points, covering the fair value premium by only a few points. Traders saw further evidence that interest is turning towards the March contract, which will take over the running on the first day of the New Year.

There was speculation on prospects of an early cut in British interest rates in the wake of the half-point cut overnight in the US Federal discount rate, but trading died away towards the close.

The options market lacked features, and much of the trading focused on the expiry of the December options. Total business for the session was 30,105, against 27,131 in the previous session.

Interest in the FT-SE Index was was down to 4,887 contracts from the 5,846 of the previous session. Once again, British Gas call options were in demand, taking Gas to the top of the actives list, as institutions continued to see a cheap substitute for the newly-privatised electricity issues.

Abbey National options also featured towards the top of the list, with 3,222 contracts turned over. Pilkington, the UK glass maker, sprang to life, with 1,554 contracts traded as news that BTR has slightly raised its stake in the company revived prospects for a bid for Pilkington.

Other actives option contracts included Amstrad (1,329), THF (1,318), and Sears (1,231). Glaxo, still unsettled by comparisons with Astra, its Swedish rival, traded 1,041 contracts.

Option		Calls Jan	Calls Apr	Calls Jul	Puts Jan	Puts Apr	Puts Jul
Alld Lyons (*485)	460	36	57	65	5½	15	19
	500	13	33	41	22	30	35
	550	3½	15	–	68	70	–
ASDA (*119)	110	12	17	–	2	5	–
	120	6	11	16	6	9½	12

Option		Calls Jan	Calls Apr	Calls Jul	Puts Jan	Puts Apr	Puts Jul
Unilever (*697)	650	54	77	92	7	16	22
	700	20	45	62	24	37	44
Ultramar (*321)	300	28	40	48	4	10	13
	330	10	22	31	16	25	36

Option		Calls Dec	Calls Mar	Calls Jun	Puts Dec	Puts Mar	Puts Jun
Amstrad (*65)	60	5	8½	12½	½	3½	7
	70	1	3½	8	5½	9½	11½
Barclays (*361)	360	–	25	32	–	24	32
	390	–	11	20	–	47	52
Blue Circle	200	20	32	34	½	7	12

THURSDAY DECEMBER ...

...che Bank

...bank's US ambitions

...porate issues

...% in quarter

OPTIONS

UK COMPANY NEWS

USH returns to black with £2.2m

By Andrew Bolger

UNITED SCIENTIFIC Holdings, the defence equipment maker which narrowly escaped being taken over by Meggitt last year, has returned to the black for the 12 months to September 30.

The group, in which IEP Securities, the investment vehicle of Sir Ron Brierley, has a near 29 per cent stake, made a pre-tax profit of £2.18m, compared with a loss of £3.7m in the corresponding period.

Turnover rose from £126.72m to £143.49m and the loss per share fell from 9.3p to 1.8p. A proposed final dividend of 1.5p makes an unchanged total for the year of 2p.

USH shares closed 3p lower at 45p. That compares with a partial cash alternative offer of 74p tabled last September by Meggitt, but later withdrawn by the specialist engineering group after USH revealed heavy losses and provisions at its troubled Avimo electro-optic plant in Taunton, Somerset.

Mr Nick Prest, chief executive, said the group had reached a settlement with the Ministry of Defence which substantially reduced its losses on a fixed-price contract at Avimo to supply Thermal Observation and Gunnery Sights (Togs) systems for army tanks.

Considerable progress had continued to be made in recovering the position of Avimo Taunton. A new managing director had been appointed and rationalisation of the business onto one site had commenced.

Nick Prest: settlement with MoD over Avimo's Togs contract

USH also completed the sale of its US Optic Electronic Corporation subsidiary to Imo Industries of New Jersey for $41m (£21.2m) last month. Just before Meggitt launched its bid, USH had arranged to sell OEC to Imo for $65m, but the deal was blocked by the Federal Trade Commission on the grounds that it would reduce competition too much in night sights.

The group said Avimo Singapore had a particularly disappointing year, returning a pre-tax loss of £790,000, against a profit of £2.42m in the comparable period. This was because of the ending of a large contract, tighter margins and difficulties with a contract to supply prisms for Nikon cameras.

USH said its armoured vehicle business, Alvis, had successfully fulfilled a demanding vehicle production programme at the same time as completing its move to a new factory, which was expected to lead to significant cost efficiencies.

Self-Changing Gears, acquired for £1.7m last year, had more than fulfilled expectations, and had generated profits of almost £600,000. Next year USH said it would combine the transmission manufacturing operations of Alvis and SCG, which would yield further benefits.

● COMMENT

USH is slowly clambering out of the pit into which it was cast by Meggitt's abortive bid last year, but sunny uplands still seem out of sight of even its most sophisticated image intensifiers. The sale of OEC, albeit at a reduced price, has cut group gearing to 15 per cent, and the deal with the MoD seems to have limited the downside of the Togs disaster at Avimo Taunton. However, the bad new from Singapore is unexpected and casts a cloud over USH's diversification plans for Alvis. Without the contribution from OEC, the group might only make pre-tax profits of £5.5m next year, with negligible earnings. Shareholders still locked in are not going to bale out at this price level, but the shares could only be attractive in the short term for those willing to take a punt based on the net asset value of just under 100p and IEP's possibly predatory intentions.

Harrison Ind slumps to £0.4m midway

By Richard Gourlay

HARRISON INDUSTRIES, the industrial doors, power transmission and castings group, yesterday reported a slump in pre-tax profits in the first half and cut its dividend.

The Gulf crisis and the effect of high interest rates on the construction industry hit pre-tax profits, which fell from £1.75m to £422,000.

Turnover in the six months to September 29 was £1.4m higher at £22.91m. Earnings per share fell from 9.4p to 2.3p and there was a reduced dividend of 2p (2.3p).

Mr Ken Harrison, the chairman, said contracts in Kuwait and Iraq had been aborted since the invasion of the former in August and had led to continuing costs.

Before the invasion, Mr Harrison had warned that the company was feeling the effects of weakness in the construction industry.

High interest rates hit Harrison's business particularly hard and the charge nearly doubled to £328,000 (£176,000).

The industrial door division's factories in the UK and France had not fully come on stream and there had been additional costs of reorganisation.

Acatos declines to £4.2m and makes £6.9m Spanish write-off

By David Owen

ACATOS & Hutcheson, which yesterday reported a decline in annual pre-tax profits from £4.5m to £4.23m, has been forced to write off its entire investment in Macisa, a Spanish associate, at a cost of £6.9m taken as an extraordinary item.

In all, extraordinary charges amounted to £8.24m, taking account of £891,000 in net site closure costs and £450,000 of privatisation expenditure. Last month, the edible oil and fat group announced that plans for a management buy-out had foundered because agreement could not be reached with potential investors.

Turnover for the year to September 30 slipped marginally to £248.18m (£250.68m), while earnings per share were down from 8.8p to 5.4p.

The group is proposing cutting its final dividend by half to 1.75p (3.5p), making a total of 3.5p (7p).

"Having bitten the bullet this year, it is our intention to concentrate our resources on those areas of our business with which we are most conversant and look for better things next year," said Mr Ian Hutcheson, chairman.

Further, he characterised Acatos' 1989-90 performance as "very unsatisfactory".

On the Spanish venture, Acatos said that a feud within the Elosua family had resulted in it no longer being in partnership with the same people.

"We have found our relationship with the management to be wholly unsatisfactory and unworkable and we have concluded that the situation is irrecoverable," the company said.

"Although discussions continue with our partners we have decided as a prudent measure to write off our total Spanish investment in Macisa."

Cabra Est goes £5.24m in red

By Clare Pearson

CABRA ESTATES, the property company which owns the freeholds of Chelsea and Fulham football clubs, declared a pre-tax loss of £5.24m for the six months to end-September, which included £1.5m worth of write-downs on trading stock arising from the fall in UK property values.

Due to a change in the company's financial year, the comparative 1989 figures were for a nine-month period, during which the group made pre-tax profits of £3.98m.

Last month, the company announced that it was in discussions which might lead to an offer being made for Stamford Bridge, the Chelsea ground which it recently received planning permission to redevelop. Yesterday Mr John Duggan, chairman, said discussions were continuing.

The company said it had charged the majority of the interest cost to the profit and loss account rather than capitalising it.

Net interest payable stood at £4.29m (£3.1m), of which £1.52m (£2.07m) was charged directly to the cost of properties held for resale or redevelopment.

Owing to differences between book values of properties and values attributable for tax purposes, the tax charge fell to £70,000 (£950,000).

The loss per share was 5.81p (3.41p earnings). An interim dividend of 0.10p, compared with 1.25p, was declared.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Acatos/Hutcheson ....fin	1.75	Apr 9	3.5	3.5	7
Bell (AH) § ....int	2.2	Feb 1	2.2	-	6.75
Brit Build & Eng ....int	0.5	Feb 5	1	-	2.5
City Site Estate ....fin	0.96	-	0.8	1.92	1.6
Dwyer ....fin	2.5	Mar 1	2.5	4	4
Firth (GM) ....int	1	Apr 8	2.25	-	5
Sterling Inds ....int	1.5	Feb 15	1.35	-	5
Utd Scientific ....fin	1.5	Apr 2	2	2	2
West Trust ....int	0.25	Apr 1	0.25	-	0.5

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock.

West Trust falls to £0.2m

TAXABLE PROFITS were sharply down from £445,000 to £191,000 at West Trust in the six months to September 30, the result being struck on sales improved 5 per cent from £7.45m to £7.86m.

The specialist textiles group said the economic recession in the UK had squeezed margins, particularly at Ken Moore, the Lycra stretch fabric manufacturer, and at Red Rose Velvets.

Earnings per share for the half-year came through lower at 0.35p (0.77p) though the interim dividend is maintained at 0.25p.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Radiant Metal Finishing, TGI.
Finals- Abbey Panels, EFG.

FUTURE DATES

Interims-

Abbey	Jan. 10
Baileys	Dec. 21
Brunner	Dec. 21
Dalepak Foods	Jan. 14
M L Hldgs	Jan. 15
Pepe	Jan. 10
Pistignum	Dec. 21
Finals-	
BMI	Mar. 18
Jersey Electricity	Dec. 21
Learmonth & Burchett	Dec. 21
Newman Tonks	Jan. 23
Union Discount (London)	Feb. 5
Vard A/S	Feb. 15

Brunner Inv

Brunner Investment Trust gross income was £6.5m against £5.77m and net revenue £3.35m compared with £2.76m for the year to November 30. The final dividend is 2.3p making 4.3p (3.75p).

Video Magic plans disposals

Video Magic Leisure Group, the video film rental company traded on the Third Market, reported unchanged pre-tax profits of £123,000 for the half year to September 30 after a jump in interest charges from £53,000 to £174,000.

It also announced an agreement under which Keymer, a company controlled by Mr Russell Sparkes, will manage 35 stores. Keymer has paid £150,000 and Video Magic has agreed to waive a debt of £150,000 owed by Mr Sparkes.

Disposals are planned to enable the company to concentrate on its core business.

The pre-tax profit for the year to March 31 1990 of £506,000 has been reduced by an exceptional provision of £150,000 relating to Mr Sparkes' debt to the company.

COMPANY NEWS IN BRIEF

ABTRUST NEW Dawn Investment Trust's revenue before tax for the six months to October 31 was £114,000 against £37,000 for a five months period. Earnings were 0.3p compared with a loss of 0.25p; there is no interim dividend.

ANGLO UNITED has paid £7.9m for the business and assets of Raab Karcher (UK), a subsidiary of the German fuel distribution group.

COURTAULDS has completed the sale of its wholly owned subsidiaries Courtaulds Packaging, Courtaulds Films (NZ) and Courtaulds Packaging PNG Pty (the CPAL Group) to Wrightcel, a newly formed company owned 40 per cent by Courtaulds, 40 per cent by AIDC and 20 per cent by senior management of the CPAL Group. All CPAL operations are being resumed by Wrightcel except for the business of sale and distribution of Cellophane products in Australia and New Zealand which is being retained by Courtaulds.

EXCALIBUR GROUP: Of the 19.85m shares recently offered via a rights issue some 9.39m were taken up. The 10.46m shares not taken up have been sold at 45¼p per share. Sub-underwriters have accordingly been relieved of their obligations in respect of the issue.

FKI has acquired the Premier's chain accessory business for £1.6m cash.

HAEMOCELL: in the rights issue of one-for-four shares provisional allotments were taken up for 2.66m ordinary (85.19 per cent). The balance of 462,840 lapsed shares has been placed at 90.5p per share.

NORTH AMERICAN Gas Investment Trust's pre-tax profits fell from £595,000 to just £98,000 in the period August 1 1990 to October 31 1990. Earnings per share fell from 1.11p to 0.18p and net assets per share were 76.8p against 100.6p a year earlier.

RANKS HOVIS McDougall: Sunningdale Holdings has sold 1.98m ordinary in RHM and as a result, combined holding of Anglo Group and Sunningdale amounts to 101.33m shares (28.58 per cent). Shares sold relate to interests of two smaller shareholders in Sunningdale – no shares attributable to holdings of Anglo Group, General Oriental Investments, RIT Capital Partners or St James's Place Capital have been sold.

RICHARDS GROUP has sold for £521,335 the stock, goodwill and tooling assets associated with the manufacture of the Thorite Power range of motorised pulleys to Sparks Belting of Grand Rapids, Michigan. Sparks is the distributor of the Thorite Power range of products in the US.

TRAFALGAR HOUSE: proposed scrip dividend in lieu of the final dividend of 9.6p will be on the basis of one new ordinary for every 20 shares held. The cash equivalent of each new ordinary is 192p.

TRIO INVESTMENT Trust announced that applications for its offer for subsciption of up to 8m ordinary shares and up to 1.6m warrants, have been received in respect of 2m ordinary and 800,000 warrants. Applications will be allotted in full.

TULLOW OIL subsidiary, Tullow Exploration, is to acquire the UK on-shore licence interests (including the West Frisby oil field) of Enterprise Oil. The consideration will be satisfied by the issue to Enterprise Oil of 6.86m Tullow shares.

VOLEX GROUP has agreed to acquire Fothergill Cables from Courtaulds Advanced Materials (Holdings) for £2.6m cash with a further amount payable, not expected to exceed £200,000, reflecting actual stocks at completion.

Rumours knock FSM in trading

By Vanessa Houlder, Property Correspondent

FORD SELLAR Morris, the USM-quoted property investment and development group, yesterday blamed a "bear raid" for a near halving of its share price from 42p to 22p during the morning. Following a confident statement from the company, the shares later made a partial recovery, ending the day down 5p at 37p.

The shares nosedived after a number of rumours circulated around the market, which were vigorously denied by the company.

"The rumours are so wide of the mark that if it was not so serious it would be laughable," said Mr Irvine Sellar, chairman.

The main topic of speculation was that FSM was having difficulties in refinancing its two joint ventures with Berisford, the troubled food and property group. FSM denied that there was any need to refinance these developments, which had not yet begun construction.

The nervousness has been fuelled by FSM's high borrowings, which stood at £113m in April. The company has sold properties with a net value of £17m since then and says it is on target to reduce gearing to 100 per cent by its year end.

Mr Bryn Mickleburgh, finance director, said: "We are operating well within our agreed gearing covenant of 175 per cent on our loan."

FSM's statement said it was confident of the success of each of its developments. "The company continues to trade profitably and enjoys the full support of its bankers."

The most recent sale, involving offices, a shopping parade and a leisure development, was to Dwyer this month for £10m.

Hogg Group subsidiary in Canadian joint venture

By Richard Lapper

THE CREDIT Insurance Association, part of the Hogg Group, yesterday announced the formation of a Canadian joint venture in the credit insurance field.

CIA, which specialises in broking trade and political risks, is joining with the Toronto-based Corporate Insurance Group, a private property/casualty and financial risk insurer, to launch the Credit Insurance Association Canada (CIAC) on January 1 1991.

According to Mr Bryan Squibb, marketing director of CIA, Canadian interest in sophisticated credit risk policies is growing.

The joint venture could serve as a model for future expansion in Europe, where CIA now operates via relationships with correspondent brokers.

When men in grey suits choose to apply Savage pressure

Andrew Hill looks at the background to the boardroom shake-up at the troubled hardware group

LET'S just say that the UK's institutional investors do not furnish great source material for City soap operas.

Never mind that the future of most workers' pensions is in the hands of these men and women in grey suits, for sheer sex appeal the British public still prefers to hear about the exploits of a dwindling band of brokers in braces.

But if the recent case of Savage Group is anything to go by, the era of the dozy fund manager is over.

The conclusion of the USM hardware company's annual general meeting this morning will mark the end of six weeks' intense negotiation between institutions and management.

During that time, faced with an attempted management coup and under pressure from its largest shareholders, the group has replaced its chairman and chief executive, started to put a new strategy in place and seen its market value rise from £11.4m to £16.7m.

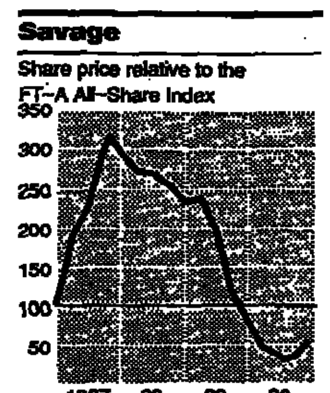
"We get criticised for being passive investors and for not participating, but you wouldn't believe the amount of time we've spent on this bloody thing," complained one fund manager yesterday.

Savage's path towards the latest confrontation started in August 1989. The shares fell 27 per cent in a day after the acquisitive group issued a profits warning following a "sudden and sharp" decline in demand for its hardware and do-it-yourself products.

The company, which had expanded rapidly in continental Europe in preceding years, increased profits by 5 per cent

Savage

Share price relative to the FT–A All–Share Index



to £7.29m before tax in the year to June 30, 1989, but analysts' forecasts of more than £14m for 1989-90 were already looking like wild overestimates. This October, the group announced an annual profit of just £51,000, with borrowings at the year-end almost equal to shareholders' funds of £25m.

By that point, institutional investors had already been primed to expect a change in management and strategy at Savage by Mr Don Wightman, who stepped down as Savage's marketing director at the end of 1989, and Mr Brian Cox, former chairman of the motor components group Camford Engineering.

Backed by Smith New Court's corporate finance department, Mr Wightman says he and Mr Cox approached 90 per cent of Savage's shareholders, starting in August with Norwich Union, the group's largest institutional investor.

Each investor was shown a document which set out the Wightman/Cox plan and bound the reader not to reveal its existence or contents. The confidentiality agreement meant some fund managers felt they could not then take their concerns to Savage's non-executive directors, who include the experienced and influential chairman of Bowater, Mr Norman Ireland.

The plan was announced on November 5 and prompted the inevitable fireworks from Savage. A special meeting of shareholders was requisitioned at which Mr Cox and his team would call for the resignation of the group's chairman, Mr. Nick Savage, chief executive Mr David Brown, and finance director Mr David Stephens. A slate of six replacement directors, including Mr Wightman as chief executive, and Mr Cox as chairman, was put forward.

Mr Cox claimed the support of holders of 48 per cent of Savage's equity, including all the largest institutions (except Investors in Industry, which traditionally backs incumbent management) and 15 per cent in private hands.

Mr Neil Mears, senior fund manager at Norwich Union, said yesterday that a number of concerns affected the institution's decision to back an attempt to oust existing management, although he refused to specify what they were. "Norwich Union is very much a long-term investor, and is usually a strong backer of incumbent management. The reasons why changes were instituted were not to do with short-term concerns about profitability."

Fund managers immediately began to step up pressure on the Savage board. On November 26, Mr Savage, grandson of the group's founder, and Mr Brown gave in to institutions' insistence that they had lost the trust of shareholders and decided to resign as directors. Mr Brown was immediately replaced by another executive director Mr Tony Philipson.

At the same time it emerged that Aetna – UK subsidiary of the US insurer – had decided to withdraw its revocable support for the Wightman/Cox plan, although the fund manager still refuses to say whether its renewed support for the existing management was conditional on Mr Brown and Mr Savage's resignation.

This began a brief interregnum, during which Mr Norman Ireland, who had always intended to step down as a non-executive director at today's annual meeting, was thrust into the limelight.

From a list of replacement chairmen put together by Savage's advisers County NatWest, Mr Ireland and other directors selected Mr Doug Rogers, former chief executive and current non-executive chairman of Newman Tonks, the building materials group.

A compromise solution seemed possible. Mr Cox would no longer let his name go forward as chairman, but a new team, consisting of Mr Rogers as chairman and Mr Wightman as chief executive would be installed with the backing of institutions.

However, when the proposal was put to Mr Ireland and the rump of the Savage directors at the beginning of this month, it was rejected. In the event, on December 6, Mr Rogers was named as chairman, and four days later Norwich Union announced that it had decided to back existing management after all. Other institutions followed suit and will vote against the Cox/Wightman proposals at today's extraordinary meeting.

That apparent solidarity may conceal some rifts. Abbey Life, for example, is to abstain when it comes to a vote today, and it and Equitable Life are believed to object to the way in which Mr Wightman seems to have been quietly dropped from any new strategy for the hardware group. Mr Rogers has said he will discuss the implementation of some of the Wightman/Cox proposals with Mr Wightman, but has not promised him any executive position. Savage has yet to reveal just how its strategy might change.

In retrospect, Mr Paul Gaunt of Equitable Life thinks it was a mistake for investors to allow themselves to be bound by a confidentiality agreement in the early stages of the saga: "It tied our hands. Norman Ireland has a fairly powerful City reputation and I think he was upset from the beginning because we signed the requisition without approaching him first."

By contrast, the diffident Mr Ireland is inclined to play down his role in the story. He explains the board's rejection of Mr Wightman in simple terms. "We had already appointed a chief executive by that time. We felt in the boardroom that it would have been difficult to work out a relationship [with Mr Wightman], because, frankly, he was on the other side."

Norwich Union's Mr Mears, for one, reacts with some irritation to any suggestion that fund managers bottled out by not pressing for implementation of the other Wightman/Cox proposals, such as the ousting of Mr David Stephens, who remains Savage's finance director.

As one member of the Wightman/Cox team puts it: "Frankly, given their duties to unit-holders and pension fund trustees they have done a good job."

Savage may still have to face up to the continuing slackness in the DIY market but, at this stage at least, the outcome looks like a quiet victory for the men in grey suits.

Major shareholdings in Savage Group

	%
Stratus Holdings (Mr Nick Savage)	12.9
Norwich Union	9.6
Aetna Life	8.9
Scottish Mutual	7.2
3i	5.9
Equitable Life	5.5
David Brown	3.9
Bank of Scotland London Nominees♣	3.5
Abbey Life Assurance	3.0
Scottish Amicable	2.6

♣ held for Queen Anne's Gate Asset Management (formerly Water Authorities Superannuation Fund) on behalf of clients

UK COMPANY NEWS

MMC to investigate Morgan Crucible buy

By Andrew Taylor, Construction Correspondent

MR PETER LILLEY, trade secretary, has asked the Monopolies & Mergers Commission to investigate whether an $86.1m (£50.9m) acquisition of European refractory businesses by Morgan Crucible, the industrial materials and electronic products company, is against the public interest.

This summer Morgan completed the purchase of the European refractory ceramic fibre and high temperature fire brick businesses of Manville International of the US. It paid a further $12.4m for Manville's US businesses.

The products are used for vessels and for protection in high temperature manufacturing processes such as in foundries and for the petrochemical industry.

Mr Lilley said yesterday that he had asked for an investigation by the Commission because of possible effects on competition in the UK market for refractory ceramic fibres.

Before the acquisition Morgan Crucible was estimated to control about 15 per cent of the European and approaching 40 per cent of the UK ceramic fibre market. After the purchase it was estimated to have just under 35 per cent of the European market.

The majority of Manville's sales are in France and Italy. It has factories at St Marcellin and Wissembourg in France and Casalpusterlengo in Italy but it has sales offices in the UK and Germany.

Mr Bruce Farmer, Morgan's managing director said: "I am amazed at the decision. This a company with no manufacturing capacity in the UK and is exporting into a market which is currently suffering from declining prices. Ceramic fibre is also available from the US, South America and the Far East. We shall however co-operate fully with Monopolies & Mergers Commission."

One of the main reasons for the reference to the Commission was that the Manville purchase reduced the number of leading suppliers to the British market from four to three. Morgan's main competitors now are Carborundum, a subsidiary of British Petroleum, and Kerlane, a subsidiary of Saint Gobain of France.

The Office of Fair Trading, which recommended that an investigation be undertaken, said the reason for the long delay in reaching this decision was because "it has taken time to get together the relevant material to decide whether an investigation was necessary."

Interest costs and failed expansion put GM Firth in red

By Richard Gourlay

GM FIRTH, the Midlands-based steel stockholding company, went into the red in the first half of 1990-91 due to a failed effort to expand in south-east England and the cost of holding a 20 per cent stake in Arthur Lee, the Sheffield-based steel and plastics group.

The six months to September 30 ended with a loss of £298,000, against pre-tax profits of £2.03m last time.

The board more than halved the interim dividend to 1p (2.25p) and the shares closed down 4p at 24p.

During the period turnover fell from £46.84m to £27.4m as the group's investment activity fell to almost nothing apart from the 19.9 per cent stake it holds in Arthur Lee.

Interest paid of £0.8m to finance the stake accounted for most of the increased interest charge of £1.07m (£698,000).

Mr Ian Wasserman, the chairman, said the stake was held in the books at "substantially" less than the 145p price at which Lee closed yesterday.

Firth also suffered losses at Caxton Steel, the East London steel stockholders bought in 1989 for £2m. Since the end of the period, Firth has closed Caxton, releasing £2m that was tied up in working capital but leading to an extraordinary loss of £132,000 during the first half.

Mr Wasserman said that the core steel business made pre-tax profits of £1m, against £1.5m in the comparable period.

NEWS DIGEST

$6m sale at Corporate Services

CORPORATE SERVICES Group, the former Southwest Resources, has completed its exit from the energy sector with the sale of States Petroleum to Sunlite in a deal worth $6m (£3.09m), writes Clay Harris.

Sunlite is paying $190,000 for States, which operates oil and gas fields in Texas, Louisiana and Mississippi, and is also taking over $5.8m of borrowings.

It was formerly a subsidiary of Dominion International Group, the financial services and property company which collapsed in January. The USM-traded company is now run by Mr Jeffrey Fowler, who plans to concentrate on recruitment, outdoor posters and office furniture.

Dwyer declines to £864,000

Dwyer, the property investment company, said that it was performing "extremely satisfactorily for a small company in a difficult sector", though it did see pre-tax profits fall from £3.24m to £864,000 in the year to September 30.

Turnover was down at £11.12m (£27.92m). Of the lower gross profits of £6.12m (£8.08m), property sales contributed only £776,000 this time, against £3.57m, while net rents chipped in more at £5.35m (£4.52m).

Fully diluted earnings came to 3.9p (13.01p) but at the basic level, there was a loss of 2.05p per share, against earnings of 12.04p. A maintained final dividend of 2.5p has been proposed to make a same-again 4p.

Difficult conditions cut AH Ball profits

Difficult trading conditions affected AH Ball Group, the USM-quoted excavation and pipeline company, during the six months ended September 30. On turnover down from £3.18m to £2.62m, pre-tax profits dropped to £376,000 compared with £609,000.

Mr TT Austin, the chairman, said that delays in water industry capital expenditure and the general downturn in the construction industry had resulted in increased competition which had affected both activity levels and margins. However, he did not expect further deterioration in the next six to nine months.

The interim dividend is being held at 2.2p, payable from lower earnings per 5p share of 3.7p (6.3p).

British Building and Engineering in loss

British Building and Engineering Appliances experienced a further decline in the six months to September 30 and went £115,000 into the red at the pre-tax level. This compared with £377,000 profits in the previous first half and a much reduced result of £324,000 for the last full year.

The directors said that steps had been taken to cut costs by closure and redundancy. However, a disappointing outcome was still expected for the year due to the continning recession in the building industry.

Turnover fell from £3.3m to £2.8m. There was a loss per share of 6.2p (14.8p earnings). The interim dividend has been halved to 0.5p.

Acquisition helps Sterling Ind up 50%

A full contribution from an acquisition made last year, together with a strong performance in Australia enabled Sterling Industries to increase interim taxable profits by 50 per cent. The rise from £1.33m to £1.99m was achieved on sales up from £11.53m to £15.76m and was in spite of a weak UK result.

The directors said Bloom Engineering, acquired in August 1989, had performed above expectations and widened the group's presence in the combustion engineering field. The hydraulics business continued to make progress but the weaker dollar had hindered business in the US.

The interim dividend has been raised to 1.5p (1.35p) on earnings per 2½p share of 4.52p (3.93p).

Westpool Investment up 51% to top £4m

Westpool Investment Trust pre-tax profits for the six months to September 30 improved 51 per cent from £2.76m to £4.17m. The dividend from London Merchant Securities, its main subsidiary, was higher at £4.27m, against £2.65m.

Earnings per share were 3.77p (2.55p) and the interim dividend is unchanged at 0.35p.

Low property sales push City Site in red

Rental income has risen 46 per cent from £5.86m to £8.56m over the past 12 months at City Site Estates, though the group reported pre-tax losses of £980,000 for the year to September 30, against profits of £6.95m last time.

This was due largely, the company said, to a sharp fall in profits from property disposals from £11.79m to £1.06m. Net interest payable and similar charges rose from £8.85m to £9.13m.

The directors added that with the rental income standing at more than £10m on an annualised basis and further growth expected in the rent roll over the next few years, they were recommending a raised final dividend of 0.96p (0.8p) to make 1.92p, a rise of 20 per cent.

At the basic level the losses per share were 7.93p (earnings 32.87p) and fully diluted earnings were 0.47p (27.35p) per share.

Fall in F&C Smaller Companies' nav

Net asset value per 25p share of F&C Smaller Companies investment trust, stood at 82.9p at October 31 1990. That was a fall of 19.2p on the figure standing a year earlier.

Attributable revenue for the half year to end-October rose from £951,000 to £1.04m, equal to earnings of 1.16p (1.05p). The interim dividend is being lifted from 0.45p to 0.6p, partly to reduce disparity. The directors' present intention is to recommend a final of not less than 1.05p to make a total of 1.65p (1.5p).

UK squeeze hits Victoria Carpet

Pre-tax profits of Victoria Carpet Holdings, carpet manufacturer, fell from £1.08m to £867,000 in the half year to end-September on turnover down from £19.45m to £18.35m. Earnings declined from 10.93p to 8.15p.

The company said the UK carpet industry had experienced increasingly difficult conditions, largely as a result of the marked decline in housebuilding and consumer spending. The market had also been flooded with heavily discounted products. The Australian economy too had remained depressed.

Against that background the directors expected to be able to maintain the existing dividend policy. Last year Victoria paid 4.25p, the fourth successive increase.

Loss at Levercrest in first results

Levercrest, specialist manufacturer of playground equipment and safety surfacing which joined the USM in June, announced a pre-tax loss of £23,000 for the six months to September 30. For the corresponding period profits of £1,000 were made.

Turnover increased by 81 per cent to £3.08m (£1.7m). The loss per share was 0.31p (0.03p earnings) and the directors said they would be recommending a final dividend for the year.

Mr Leslie Cluer, the chairman, said that since joining the USM the company had invested in larger and better equipment. He was confident that that expenditure would enable it to take advantage of the seasonal increase in business in the second half when the majority of its profit was made.

He added that the company had had a number of approaches from foreign customers and was actively pursuing all export opportunities.

Higher interest costs hit Faupel Trading

Faupel Trading Group, the USM-quoted company which imports clothing and household textiles mainly from China, reported reduced pre-tax profits of £609,000 for the half year to end-September, compared with £732,000. The profit fall was mainly due to an increase in interest charges *from £301,000 to £445,000.*

The chairman said it was too early to give any indication of the full-year results, and although sales of autumn goods had started quite well, much work remained to be done. Turnover for the period improved to £8.89m (£8.32m).

The interim dividend is held at 1.85p, payable from earnings per 5p share of 5.03p (6.21p).

Aegis issues 7.1m new ordinary

Aegis, the marketing group, is issuing 7.1m new shares worth £12.78m to pay part of the deferred consideration on its acquisition of Carat, the French media-buying company.

The majority of the new shares – 4.1m – will be retained by the vendors of Carat.

The remaining 3m shares will be purchased by Eurocom, the French advertising group which already has a significant holding in Aegis. The Eurocom holding will then increase to 14.97 per cent.

The new shares will increase the number of Aegis shares in issue from 75.6m to 82.7m. They will be issued at 180p each.

Aegis acquired a 50 per cent stake in Carat in 1988 and agreed terms to buy the rest of the company for FFr2.02bn (£206m) the following year. It made an immediate payment of FFr1.02bn and agreed to pay the rest in equal instalments.

A2

Notice of Mandatory U.S. $20,000,000 Redemption

out of:

U.S. $100,000,000

Lloyds Eurofinance N.V.

11½ per cent. Guaranteed Bonds due 1994

Unconditionally and irrevocably guaranteed on a subordinated basis by

Lloyds Bank

NOTICE IS HEREBY GIVEN that pursuant to Condition 6(a) of the Bonds, U.S. $20,000,000 principal amount of the Bonds has been drawn for redemption at their principal amount.

Payments of principal will be made in accordance with Condition 5 of the Terms and Conditions of the Bonds on or after 30th December, 1990 at the specified office of any of the Paying Agents who are listed in the Terms and Conditions of the Bonds, against surrender of the Bonds with all unmatured Coupons attached, failing which the face value of any missing unmatured Coupon will be deducted from the payment. Any amounts of principal so deducted will be paid against surrender of the relevant missing Coupon within a period of six years from the date mentioned on the Coupon. Accrued interest due 30th December, 1990 will be paid in the normal manner against presentation and surrender of Coupon No 8 on or after 30th December, 1990. Interest on the Bonds drawn for redemption will cease to accrue from 30th December, 1990.

Serial numbers of the Bonds drawn are as follows:-

[illegible]

By: The Chase Manhattan Bank, N.A.
London, Principal Paying Agent

20th December, 1990

CHASE

COMMODITIES AND AGRICULTURE

Load of stinking fish fails to persuade EC to agree

By **David Gardner** in Brussels

THE European Commission and EC fisheries ministers were last night mired in their efforts to set catch limits for next year to preserve fishing stocks and fishing jobs, apparently unstimulated by a truckload of high-smelling herring deposited on the doorstep of the European Council here by a squadron of the Breton fleet.

The Fisheries Council broke into all-night bilateral negotiations, with virtually all ministers at odds with Mr Manuel Marin, the Spanish EC Fisheries Commissioner, for differing reasons.

Mr Marin has put forward a package of reduced quotas, or Total Allowable Catches (TACs), for fish stocks such as cod and haddock, along with a series of conservation measures that ministers were unable to endorse at last month's meeting.

Acting on scientific evidence from the independent International Council for the Exploration of the Sea in Copenhagen, which concluded that there is over-fishing of more than 90 per cent of the main stocks in the North Atlantic, the Commissioner's most contentious proposals are:

- Reducing the EC cod quota in the North Sea and off the west coast of Scotland from 98,270 tonnes last year to 85,700 this year and the haddock quota from 41,700 to 40,500. While these cuts are about half as severe as the ICES wanted, they follow huge fishing reductions, threatening in particular the income of Scots fishermen.
- Fishing boats in those areas of the North Sea with a concentration of young cod should remain in port for 10 consecutive days each month.
- Net mesh sizes should be increased from the present norm of 90mm or less, to 120mm and be square instead of diamond-shaped mesh to let smaller fish escape.

Mr Marin has resorted to high-pressure tactics to get his package through. Ministers confirm that he has told them that if they are unable to agree on a deal involving more than cosmetic conservation rules, he will in effect put the Common Fisheries Policy (CFP) into abeyance and let member states incur the political opprobrium for whatever measures they choose to adopt.

In the arcane procedures of the EC, this would involve issuing merely a "recommendation", rather than a binding "regulation". The Commission has overall competence over EC fisheries, with the CFP treating the Community as a single coastal state.

This would be an odd tactic at a time when the Commission is perceived to be grasping more power. Yet the bureaucracy at Berlaymont is a convenient whipping-boy for fishing members forced to adopt unpopular policies. Without the Commission, fisheries ministers would either have to devise restrictions themselves, or cave into pressure from fishermen now and face even louder complaints when fish stocks run out. Mr Marin is understood to think.

One minister last night dismissed the tactic as operatics. "Marin confuses a fisheries council with Tosca", he said. Yet he did concede that there was no appetite for agreement.

Mr David Curry, the UK Fisheries Minister who is particularly exposed at this year's quota-fixing council, said he was willing to negotiate a compromise through a watered-down package. "If fishermen want to fish themselves out of a job, I can't stop them and I can't put an inspector in every boat", he commented.

Total signs Soviet oil accord

By **William Dawkins** in Paris

TOTAL-CFP, the French state-controlled oil group, has signed an exploration, development and production accord with the Soviet Union for an oil and gas field at Timan Pechora, north-west of the Urals.

This is the second French deal of this type since Elf-Aquitaine, Total-CFP's larger state-controlled rival, last May became the first western oil company to sign an oil production and exploration agreement with the Soviet Union, in an area north of the Caspian Sea.

Since then, a series of western oil groups have signed joint ventures with the Soviet Union, which is anxious to use their expertise to extract oil and gas from its untapped fields and use modern technology in an inefficient industry.

Total-CFP's Soviet partner is the *Ukhtaneftegazgeoligia*, a unit of the Soviet Ministry of Geology. The partners expect to start production of a little more than 1m tonnes of oil annually from three wells by the end of 1991, according to Mr Pierre Vaillaud, group managing director. The French company has already put out tenders for pipelines to carry crude to the main trans-Siberian link.

Under the agreement, Total-CFP will also explore for new deposits in a 5,000km square area in Timan Pechora and develop non-producing wells already identified by its Soviet partner. This follows the signing earlier this month of a separate deal under which Total will sell technology to help raise output at Ramashinko oilfield, in the south Urals.

Total-CFP also announced yesterday that it is to more than double gas production in Indonesia by 1995 from the present annual rate of 4bn cubic metres to 10m cubic metres. This will allow its local partner, Pertamina, to supply the growing Japanese market.

The group also disclosed that it is to build a gas liquefaction plant with its three local partners in Thailand and double its annual 1m cubic metre gas output in Argentina by 1993.

ENI signs gas import deal with Algeria

By **Haig Simonian** in Milan

ENI, the Italian state-owned energy and chemicals group, has agreed with the Algerian government to increase imports of natural gas by nearly 60 per cent to 530bn cubic metres over a 25-year period. However, a price for the supplies has not been disclosed. Both sides also plan a series of infrastructural investments linked to the deal worth about 8,000bn lira (£71m).

The agreement, signed by Snam, Eni's gas subsidiary, and Sonatrach, the Algerian gas concern, covers imports by Italy of 7bn cubic metres of extra methane gas from 1994.

It also follows a deal in 1977, when Algeria agreed to supply 300bn cubic metres of gas for 25 years, and will take Snam's total gas imports from Algeria to around 19bn cubic metres a year from 1994 to 2020.

The latest increase will require substantial new investment, with a doubling of the existing pipeline bringing Algerian gas to Italy likely. However, the bulk of the forecast expenditure will be in Italy, where the natural gas grid is being steadily expanded.

Extra spending should also provide capacity for the import of 4bn-5bn cu metres of gas by the state electricity group.

Peru's insects lend colour to Christmas fare

Sally Bowen looks at an exotic butterfly husbandry to produce cochineal in the Andes

CHANCES are, the insect known as "the sex-crazed Peruvian butterfly" is partially responsible for the blood-red holly berries decorating your slice of traditional, richly-iced Christmas cake.

In its sleepless 72-hour life, the butterfly flits around fertilising as many females as possible. It finds its mates clinging happily to the sides of prickly pear cactus or *tuna*. The male dies but the females spawn thousands more juice-sucking insects.

When the plant is covered with female cochineal bloated with carminic acid, the larger ones are carefully scraped off and dried. The result is cochineal.

Dried cochineal (looking reassuringly like pinkish-grey seeds rather than squashed beetles) is the raw material used to make the natural red carminic acid colourant. This is used in the manufacture of cosmetics, drinks (for example Campari), foods and textiles. The coveted large cochineal insects contain 18-20 per cent carminic acid, while young insects have only half that amount.

Peru is the world's principal producer of cochineal and carmine, supplying over 85 per cent of the world market. Peru exports about 220 tons of cochineal and 48 tons of carmine, earning the country $14m in an average year. The Canary Islands and Mexico – the traditional sources of carmine in the eighteenth and nineteenth centuries – produce the balance.

The total world market for colourants, natural and synthetic, is estimated to be worth about $200m a year.

Peru has five carmine producers and there has been renewed interest over recent months with US buyers coming to Peru to promote more carminic acid plants. Locally-produced carmine would be cheaper than that made in Japan and Europe, but there is some nervousness. The process of finding the exactly right shade of red is considered tricky technically.

The colour depends on the precise local variety of cochineal insect, according to Salomon Diaz, a long-time cochineal exporter and head of the agricultural committee at Peru's Exporters' Association. Insects from the southern region of Arequipa and the mountainous Ayacucho are the most prized, although the species and their areas are as yet unmapped.

About a third of Peru's exports go to Japan, largely bought by the Sumitomo trading company. France, Germany and Britain are other important markets and Mr Diaz is hopeful that the recent EEC decision to eliminate tariffs on a range of Andean products will boost sales. The Peruvian industry is also optimistic that Holland's October ban on synthetic colourants for Dutch cheese will herald a long-expected move back to natural products such as bixine, annatto and carmine.

Insect taste: cochineal clusters on a prickly pear cactus

However, nature did not reckon the price. Natural colourants like cochineal are expensive, even at the present price of about $22 a kilo (compared to twice that two years ago). Harvesting cochineal is a laborious job, which involves picking the largest bloated females from the higher leaves of the prickly pear.

Andean peasants use a stick with a cloth wrapped around the end to collect them. Working a long, hard day they can harvest fresh insects weighing up to five kilos, although they will weigh only a third of that once they are sun-dried.

Well over half of Peru's cochineal still comes from Ayacucho, birthplace of Sendero Luminoso and traditionally one of the nation's poorest regions. For the past 10 years, Ayacucho has been at the heart of the conflict between guerrillas and the forces of order.

A recent initiative in Ayacucho by the Uruguay-based Canadian-funded International Development Research Centre is an attempt to rationalise prickly-pear cultivation and post-harvest cochineal management.

Mr Diaz says there is plenty of scope for raising productivity in traditional growing regions like Ayacucho, for example by instituting simple technical improvements like pruning. "Infestation", the word used to describe the process of transferring the insects manually to their optimum habitat, could also be improved.

"The $17 a kilo that the producer gets is profitable for growers in the *sierra* but not on the coast", he says. "I don't support expansion of the total acreage; we should cater for the projected 10-12 per cent annual demand increase by improved technology."

Yet prickly pear farms are springing up in Peru's southern and central coastal desert. Programmed production is making strides and a new prickly pear cactus without the very inconvenient spines is being developed. It is hoped this will make collection less painful and more efficient.

Unlike plants that grow wild, these cacti will be pruned periodically. They are also planted at much greater density; about 8,000 cacti per hectare is normal, but one leading Peruvian producer claims to have up to 20,000 plants per hectare. The prickly pear is normally ready for "infestation" with cochineal two to three years after it has been planted.

Peru could easily double its present annual production as it has already done in the past five years. "But I don't believe there will be a cochineal boom", says Mr Salomon Diaz. "What we should be doing, however, is making our products more widely known".

Rain, winds and taxes lash coffee growers

Tim Coone on the difficulties confronted by El Salvador's principal export industry

STRONG WINDS and heavy rains in El Salvador over the past two months have dashed hopes of a bumper coffee crop this season and disrupted efforts by the government to revitalise what it considers a key area of the economy.

According to Mr Ruben Pineda, president of the El Salvadorean Coffee Council, losses are estimated to be as high as 15-20 per cent of the originally anticipated harvest of 3m bags (of 60 kilos each). Growers stand to lose $50m-$60m in income, he said.

As a consequence, Mr Alfredo Cristiani, El Salvador's President, can now expect increased pressure to eliminate the coffee export duty, which only five years ago generated 40 per cent of the government's revenue. This demand will present him with some uncomfortable choices.

After taking office in June 1989, President Cristiani sharply reduced the duty by an average $6 per 60kg bag. Only $25m was levied from the duty in 1989, down to 5 per cent of the government's total tax revenue. The President also broke up the monopoly of the state-run coffee marketing board, set up under the Christian Democrat administration at the beginning of the 1980s and unified currency exchange rates.

Together, the measures have brought substantially better returns to growers and restored confidence after a decade of recession during which coffee output had slumped by 50 per cent.

In spite of the fall in world prices triggered by the collapse of the International Coffee Agreement (ICA) in July 1989, El Salvador's coffee exports surged forward from 1.5m bags of 60kg in the 1988-89 harvest to 2.7m bags in the past marketing year. Production was expected to approach the record levels of the early 1980s until the recent bad weather.

However, crop losses have provided the ideal pretext growers have been looking for to urge elimination of export duty altogether.

The boom in demand for quality Central American "other milds" since the collapse of the ICA, has cleared the region's overhang of stocks and opened up a vast market in the US, Europe and Asia.

Rich pickings are available for those with bags to sell. "Our problem right now is the shortage of output, not a shortage of markets", Mr Pineda said.

El Salvadorean growers pay the highest export taxes in Central America, according to data compiled by Mr Pineda's council. In 1989, an El Salvador producer paid on average $18.20 per 60kilo sack in export duties. Counterparts in Honduras paid $17.11, in Costa Rica $2.42, in Guatemala $1.29 and nothing at all in Nicaragua.

"This gives us a margin to play with to compete against the others", said Mr Pineda. However, he is cautious about the future. "We are not capital-intensive producers in El Salvador, so until now we have been able to absorb the low prices. The best defence against low prices is higher productivity per hectare but that faces an obstacle", he said.

The setback after the ICA collapse has been compounded by the Gulf crisis. Doubled oil prices translate into doubled costs for transport and agrochemicals. Higher productivity can be achieved only by more intensive use of fertilisers and pesticides Mr Pineda said. A war in the Gulf will boost input costs still further.

That is why the growers of El Salvador are focusing their political campaigning on the export duty, he said.

President Cristiani is in the middle of a civil war and pressed on all sides by competing budget demands. The trap awaiting him is that if he forgoes the remaining export tax income to satisfy his political supporters, he will have to transfer the tax to other sectors just three months before mid-term elections for the National Assembly.

Mr Jose Carlos Bonilla, vice-president of the central bank, emphasises the key role of the coffee sector in the government's economic plans. "As a short and medium-term goal, reactivation of the coffee sector has been a priority. It quickly provides employment and foreign exchange" he said.

Without the increased output, El Salvador would have slipped a further $100m into the red on its external payments this year.

Last year, coffee growers absorbed 72 per cent of total agricultural credit given by the banks, equivalent to twice that received by any other single sector of the economy.

With government attention already lavished upon them, the coffee growers' plea for a further tax concession may provoke a violent reaction. Until now, the "war taxes" imposed by the left-wing FMLN guerrillas have never affected more than the 10 per cent of the total output grown in the main war zones in the east of the country. However, FMLN rebels are now moving into the main coffee-growing regions around Santa Ana in the west in preparation for a nationwide offensive. Extension of the "war taxes" would be one way to finance the military campaign.

A2

WORLD COMMODITIES PRICES

MARKET REPORT

Tin prices on the LME yesterday sank to their lowest since the contract was introduced in June 1989. High stocks and low demand have contributed to a bearish outlook and further losses are possible, dealers added. "There is nothing bullish on the horizon," one said. The plentiful supplies have contributed to the discount for cash to three-month metal widening to $112.50 a tonne from Monday's $92.50. Nickel prices advanced on concern about possible supply disruptions following a fire at the Doniambo plant in New Caledonia. Silver prices rose sharply in early trading on Comex. Some analysts said the buying was spurred by lower interest rates on the heels of Tuesday's surprise half-point cut in the Federal Reserve's discount rate to 6½ per cent. Others contended the main feature was bargain hunting which began Tuesday afternoon after the market absorbed a wave of selling. They all said the gains reflected the triggering of buy stops in a thin market. London robusta coffee prices closed well down, eroding the January-March premium. A similar performance on Tuesday did little to reduce the January uncovered position of just under 20,000 lots.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$22.45-2.65t	+.85
Brent Blend (dated)	$28.10-8.20	+.675
Brent Blend (February)	$26.65-6.75	+1.15
W.T.I. (1 pm est)	$27.40-7.45t	+1.05
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$252-256	+3.5
Gas Oil	$267-268	+4.5
Heavy Fuel Oil	$137-139	-1
Naphtha	$268-270	+5
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$380.20	+3.25
Silver (per troy oz)♣	397.10c	+0.80
Platinum (per troy oz)	$416.40	+2.65
Palladium (per troy oz)	$88.25	-0.05
Aluminium (free market)	$1535	-5
Copper (US Producer)	115½c	
Lead (US Producer)	50c	
Nickel (free market)	384c	+12
Tin (Kuala Lumpur market)	15.06r	-0.10
Tin (New York)	263c	+2
Zinc (US Prime Western)	70c	
Cattle (live weight)†	105.79p	-2.47*
Sheep (dead weight)†	137.57p	-6.14*
Pigs (live weight)†	77.24p	+1.46*
London daily sugar (raw)	$247.6w	+0.20
London daily sugar (white)	$304.0w	-2.50
Tate and Lyle export price	£236.0	
Barley (English feed)	£122.5	
Maize (US No. 3 yellow)	£180.00	-0.50
Wheat (US Dark Northern)	£97	
Rubber (Jan)♥	50.25p	
Rubber (Feb)♥	50.50p	
Rubber (KL RSS No 1 Jan)	239.0m	-0.50
Coconut oil (Philippines)§	$315.0z	-10.0
Palm Oil (Malaysian)§	$320v	-10.0
Copra (Philippines)§	$240.0t	
Soyabeans (US)	£130.0	-1.50
Cotton "A" Index	84.05c	-0.15
Wooltops (64s Super)	414p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents lb. r-ringgit/kg. q-Nov/Dec. t-Feb. v-Jan. w-Dec/Jan. z-Jan/Feb. x-Mar. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents kg.

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low
Mar	215.60	216.60	216.80 215.20
May	218.00	218.60	219.20 217.20
Aug	221.60	222.20	222.60 221.20
Oct	220.80	222.00	222.00 221.80
May	224.00	226.00	223.00
White	**Close**	**Previous**	**High/Low**
Mar	301.6	302.0	302.0 301.00
May	300.6	301.0	300.0
Oct	287.1		286.5
Mar	283.0		281.0

Turnover: Raw 1054 (729) lots of 50 tonnes. White (126).
Paris- White (FFr per tonne): Mar 1525, Aug 1579, Oct 1478

CRUDE OIL – IPE $/barrel

	Latest	Previous	High/Low
Feb	26.55	26.05	26.60 26.15
Mar	25.45	25.10	25.45 25.10
Apr	24.50	23.95	24.45 24.10
IPE Index	25.93	26.19	

Turnover 6140 (7355)

GAS OIL – IPE $/tonne

	Latest	Previous	High/Low
Jan	254.75	251.00	255.25 252.00
Feb	243.00	237.50	243.00 239.25
Mar	228.75	224.00	228.75 225.00
Apr	212.50	207.00	214.00 210.00
May	209.75	202.00	209.75 205.00
Jun	204.00	201.00	204.00 200.00
Jul	202.00	197.00	202.00 201.00

Turnover 5072 (6456) lots of 100 tonnes

WOOL

Auction sales in primary markets have closed until the second week of January. Prices lately have landed firmer, with crossbreds sometimes quite sharply up. With British wool only available at intermittent auctions there has been a certain amount of distortion due to urgent covering pressure. In New Zealand sales have been better also, with prices firmer. The improvement in raw wool markets has revealed the emptiness of the supply pipeline and the exceptionally low level of commercial stocks. World wool supplies are far too great for any euphoria to develop, but improvement of any sort is welcome.

COCOA – London FOX £/tonne

	Close	Previous	High/Low
Dec	608	615	605 603
Mar	659	662	666 653
May	694	696	699 687
Jul	723	724	728 717
Sep	751	749	756 745
Dec	781	780	782 774
Mar	806	806	810 800

Turnover: 9754 (6264) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Dec 18 876.81 (903.38) 10 day average for Dec 19 915.30 (921.26)

COFFEE – London FOX £/tonne

	Close	Previous	High/Low
Jan	604	619	617 598
Mar	577	588	587 575
May	582	593	589 580
Jul	598	608	603 593
Sep	608	622	619 610
Nov	625	636	632 630
Jan	640	649	647 643

Turnover 3047 (3079) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Dec 19: Comp. daily 73.30 (73.51). 15 day average 73.12 (73.01)

POTATOES – BFE £/tonne

	Close	Previous	High/Low
Apr	133.7	133.5	134.0 132.5

Turnover 45 (124) lots of 40 tonnes.

SOYAMEAL – HI-PRO £/tonne

	Close	Previous	High/Low
Feb	118.00	118.00	118.00
Apr	120.00	120.00	120.00
Jun	121.00		122.00 121.00

Turnover 85 (60) lots of 20 tonnes

FREIGHT FUTURES – BFE $10/index point

	Close	Previous	High/Low
Dec	1443	1460	1445
Jan	1470	1475	1470 1460
Apr	1370	1375	1370 1350
Jul	1090	1088	1090 1085
BFI	1443	1438	

Turnover 357 (282)

GRAINS – BFE £/tonne

Wheat	Close	Previous	High/Low
Jan	119.30	119.45	119.40 119.25
Mar	122.70	122.90	122.90 122.80
Barley	**Close**	**Previous**	**High/Low**
Jan	114.80	115.25	115.05 114.80
Mar	118.40	119.20	119.00 118.40
May	120.00	120.35	120.00 119.85

Turnover: Wheat 28 (129), Barley 145 (168)
Turnover lots of 100 tonnes

PIGS – BFE (Cash Settlement) p/kg

	Close	Previous	High/Low
Mar	95.0	95.0	94.5
Apr	97.0	97.0	96.5
Jun	97.5		97.0

Turnover 26 (25) lots of 3,250 kg

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 16,709 lots
Cash	1531-3	1535-7		1530-1		
3 months	1565-6	1565-70	1570/1561	1561-2	1566-7	61,625 lots
Copper, Grade A (£ per tonne)						Total daily turnover 18,865 lots
Cash	1288-9	1288-9	1290/1282	1280-1		
3 months	1301-2	1301-2	1303/1295	1297-8	1301-2	105,917 lots
Lead (£ per tonne)						Total daily turnover 2,748 lots
Cash	314-5	312-4	315/314	313.5-4.5		
3 months	327-8	326-7	331/327	327.5-8	329-30	10,783 lots
Nickel ($ per tonne)						Total daily turnover 2,775 lots
Cash	8220-40	8050-100		8250-300		
3 months	8200-5	8075-100	8375/8175	8270-5	8225-60	8,110 lots
Tin ($ per tonne)						Total daily turnover 2,095 lots
Cash	5580-610	5645-55	5623/5590	5635-40		
3 months	5710-5	5755-60	5760/5705	5735-40	5725-30	7,773 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 4,866 lots
Cash	1249-51	1258-62	1250	1250-1		
3 months	1253-4	1259-62	1257/1248	1252-3	1248-9	19,087 lots

LME Closing £/$ rate:
SPOT: 1.9320 3 months: 1.9039 6 months: 1.8803 9 months: 1.8605

NGMI – London FOX £/tonne

	Close	Prev	High	Low	Vol
Indx	157.50	158.10	157.50		
Jan	159.50		159.50		98
Mar	159.50	159.40	159.50		65
Jun	157.50	158.40	157.50		98
Dec	157.00	159.20	157.00		65

LONDON BULLION MARKET
(Prices supplied by N.M.Rothschild)

Gold (fine oz)	$ price	£ equivalent
Close	380.00-380.40	
Opening	376.50-377.00	
Morning fix	375.80	194.658
Afternoon fix	378.90	196.067
Day's high	380.30-380.70	
Day's low	376.40-376.80	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	5.80	6 months	5.37
2 months	5.58	12 months	5.31
3 months	5.51		

Silver fix	p/fine oz	US cts equiv
Spot	205.20	397.10
3 months	212.15	404.45
6 months	218.85	411.95
12 months	231.45	426.65

TRADED OPTIONS

Coffee	Mar	May	Mar	May
550	45	53	18	23
600	21	28	44	48
650	9	15	82	85
Cocoa	**Mar**	**May**	**Mar**	**May**
600	72	105	14	12
650	41	70	33	27
700	22	44	64	51
Brent Crude	**Feb**	**Mar**	**Feb**	**Mar**
2500			300	
2550				
2600				

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Dec	386.0	376.5	387.0	377.3
Jan	386.9	377.3	0	0
Feb	388.0	378.4	388.4	379.0
Apr	391.4	381.9	392.0	382.7
Jun	395.0	385.6	396.0	388.5
Aug	398.5	389.1	393.0	390.0
Oct	402.1	392.6	0	0
Dec	405.8	396.1	401.5	399.5
Feb	409.7	399.8	0	0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Jan	416.9	408.7	417.0	409.5
Apr	422.0	414.2	422.5	414.5
Jul	422.5	418.4	422.5	419.3
Oct	424.0	422.0	424.0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Dec	409.5	396.0	411.5	396.5
Jan	411.0	397.6	402.0	402.0
Feb	413.5	400.2	0	0
Mar	416.0	402.6	417.0	403.0
May	421.6	408.2	423.5	408.5
Jul	427.0	413.5	427.5	413.5
Sep	432.5	418.8	429.0	429.0
Dec	440.2	426.3	442.0	428.5
Jan	442.2	428.2	0	0
Mar	448.5	434.4	437.0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Dec	112.50	111.90	112.50	111.50
Jan	111.50	111.20	111.75	111.00
Feb	110.70	110.10	110.90	110.00
Mar	108.90	108.40	109.30	107.60
Apr	107.80	107.40	107.00	107.00
May	106.60	106.30	106.80	105.90
Jun	105.45	105.20	0	0
Jul	104.30	104.10	104.80	104.30
Aug	103.60	103.40	0	0
Sep	102.95	102.70	103.40	103.00

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Feb	27.17	26.92	27.45	26.80
Mar	26.18	25.81	26.50	0
Apr	25.33	24.81	25.50	24.85
May	24.70	24.06	24.75	24.15
Jun	23.90	23.48	24.05	23.55
Aug	23.10	22.69	23.20	23.00
Sep	22.85	22.46	22.90	22.75
Oct	22.67	22.32	22.75	22.55

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Jan	7825	7567	7870	7570
Feb	7950	7449	7670	7400
Mar	7250	7090	7285	7060
Apr	6835	6650	6836	6650
May	6525	6365	6525	6430
Jul	6290	6110	6300	6175

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Mar	1159	1156	1171	1148
May	1204	1198	1214	1195
Jul	1242	1240	1250	1237
Sep	1281	1280	1287	1280
Dec	1320	1320	1320	1317
Mar	1355	1355	0	0
May	1400	0	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Mar	91.60	92.45	93.90	91.50
May	93.90	94.70	96.00	93.80
Jul	96.00	96.80	98.00	96.00
Sep	98.10	99.15	100.10	98.10
Dec	100.90	101.90	102.45	100.90
Mar	102.00	103.00	0	0
May	103.00	105.00	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Mar	9.67	9.70	9.73	9.63
May	9.75	9.78	9.80	9.72
Jul	9.79	9.82	9.85	9.77
Oct	9.80	9.83	9.83	9.78
Mar	9.86	9.89	9.92	9.90
May	9.89	9.89	10.10	9.75

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Mar	75.75	75.42	75.99	75.47
May	76.00	74.65	75.16	74.80
Jul	74.60	74.32	74.85	74.43
Oct	68.15	67.75	68.10	68.00
Dec	65.25	65.05	65.30	65.05
Mar	0	65.80	0	0
May	66.75	66.25	0	0

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jan	111.00	109.75	113.00	108.50
Mar	111.50	109.70	113.00	109.25
May	113.25	110.50	113.50	110.00
Sep	113.00	111.80	114.00	113.00

INDICES

REUTERS (Base: September 18 1931 = 100)

Dec 19	Dec 18	mnth ago	yr ago
1709.0	1716.8	1700.5	1808.0

DOW JONES (Base: Dec. 31 1974 = 100)

	Dec 18	Dec 17	mnth ago	yr ago
Spot	123.20	123.69	122.51	127.90
Futures	125.84q	127.01	124.35	129.83

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Jan	576/2	583/2	581/4	576/0
Mar	591/2	598/4	596/6	591/0
May	605/6	613/4	611/4	605/4
Jul	618/4	625/6	623/4	618/0
Aug	621/6	629/0	625/4	621/4
Sep	616/0	623/0	622/0	616/0
Nov	617/6	624/0	624/0	617/4
Jan	630/2	635/4	634/4	630/2

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Dec	20.65	21.00	20.95	20.62
Jan	20.74	20.99	21.00	20.73
Mar	21.13	21.33	21.39	21.11
May	21.48	21.63	21.68	21.43
Jul	21.69	21.83	21.85	21.65
Aug	21.62	21.75	21.75	21.62
Sep	21.54	21.65	21.65	21.53
Oct	21.50	21.65	21.55	21.50

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Dec	172.7	175.0	174.5	172.7
Jan	172.7	175.9	175.3	172.6
Mar	177.6	180.9	180.5	177.4
May	181.7	184.7	184.2	181.5
Jul	185.5	188.1	187.4	185.2
Aug	186.7	189.0	188.5	186.5
Sep	185.7	188.0	188.0	185.5
Oct	186.0	187.0	187.0	186.0
Dec	188.0	189.5	189.0	187.0

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Dec	224/0	225/0	225/4	223/4
Mar	235/2	238/0	237/4	235/0
May	242/4	246/0	245/2	242/2
Jul	248/6	252/2	251/6	248/4
Sep	250/2	253/2	252/6	250/2
Dec	251/0	254/0	253/4	250/6
Mar	258/0	261/0	260/0	258/0

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Dec	247/6	251/6	251/4	247/0
Mar	261/6	263/2	263/4	260/4
May	269/6	270/6	271/0	268/0
Jul	273/6	274/0	274/0	271/6
Sep	278/4	280/0	280/6	278/2
Dec	290/0	293/0	291/6	290/0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Dec	80.50	80.95	80.85	80.42
Feb	76.52	76.87	76.80	76.32
Apr	76.60	76.80	76.70	76.42
Jun	74.46	74.62	74.55	74.30
Aug	72.85	73.00	73.05	72.75
Oct	72.90	73.02	73.00	72.80
Dec	73.75	73.75	73.80	73.65

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low	
Feb	49.60	49.10	49.67	48.97
Apr	47.57	47.15	47.70	46.77
Jun	50.95	50.50	51.00	50.05
Jul	50.70	50.35	50.75	50.12
Aug	49.62	49.20	49.70	48.95
Oct	44.20	44.05	44.25	0
Dec	45.05	44.85	45.05	0

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
Feb	64.10	62.22	64.20	61.45
Mar	63.62	61.65	63.65	61.00
May	63.95	61.95	63.95	61.10
Jul	63.77	61.77	63.77	61.40
Aug	61.77	59.77	61.77	59.77

LONDON STOCK EXCHANGE

Equities firmer as rate hopes revive

THE DEBATE over prospects for domestic interest rates was propelled into the centre of the UK stock market stage again yesterday following the half-point cut to 6.5 per cent in the US discount rate overnight. However, UK equities looked uncertain at first and an advance in the second half of the session appeared to reflect a report in the London press that the UK government might be relaxing its view on the level of sterling acceptable for cuts in domestic base rates.

Equities, having opened 10 FT-SE points higher in response to the cut in the Federal discount rate, lost heart when sterling failed to make headway, but then turned firmly upwards again as investors reassessed the chances for an early cut in UK rates in the wake of the decision on the other side of the Atlantic.

Account Dealing Dates			
First Dealings:	Dec 10	Dec 31	Jan 14
Option Declarations:	Dec 27	Jan 10	Jan 24
Last Dealings:	Dec 28	Jan 11	Jan 25
Account Day:	Jan 7	Jan 21	Feb 4

New-time dealings may take place from 9.00 am two business days earlier.

At the close, the FT-SE Index was 16.9 points ahead at 2,178.7, just below the best of the day. Turnover remained relatively high, with Seaq volume at 509.2m shares, against Tuesday's 575.3m. Traders said that equity volume was again swollen by substantial tax-loss trading, including the repurchase of stock sold for this purpose at the close of the previous session.

Equity strategists sounded unconvinced by the arguments that UK interest rates can follow the US discount rate downwards in the near future. "The main problem for the British authorities is the sterling/D-Mark rate," commented Mr Bob Semple at County NatWest. Yesterday's pronounced weakness in sterling against the German currency was seen as a warning sign of the likely outcome of any near-term reduction in UK rates.

The healthy level this week in Seaq daily volumes, which incorporate both customer and inter-dealer business in equities, appears to mask the expected decline in genuine investment activity as the institutions wind down operations ahead of the year-end. Data on equity retail business, published by the International Stock Exchange, shows that customer interest in shares slipped to £639.2m on Monday from the £1bn-plus daily totals recorded last week.

Many, but not all, institutions, will draw the line under 1990 investment by the end of this week. Their current operations are largely concerned with establishing tax losses, or merely tidying up portfolios by moving into stocks which have advanced this year, and weeding out the less attractive features.

The market was also encouraged yesterday by a return of bid activity as the news that BTR has marginally increased its stake in Pilkington, the world leader in flat glass manufacture, revived hopes that the UK conglomerate may be poised for another attack on Pilkington. However, other names have been suggested as possible bidders for the glass maker.

Although London shares ended firmly, there was some disappointment in very late trading at Wall Street's uninspiring start to the new session – the Dow was barely ahead when London closed for the day. UK analysts commented that the cut in Federal discount rate could prove a two-edged sword for other world markets. The cut was clearly a reaction to growing recessionary pressures on the US economy and to the severe pressures on US banks, which were indicated by the dividend cut announced overnight by Citicorp, the biggest US bank.

Equity investors were also restrained by the new uncertainty over the Gulf crisis, signalled yesterday by a modest firming in crude oil prices.

FINANCIAL TIMES STOCK INDICES

	Dec 19	Dec 18	Dec 17	Dec 14	Dec 13	Year Ago	1990 High	1990 Low	Since Compilation High	Since Compilation Low
Government Secs	82.83	82.74	82.67	83.37	83.31	84.45	84.20 (2/1)	74.13 (30/4)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	91.14	91.05	90.93	91.14	91.02	92.41	92.91 (8/1)	83.80 (30/4)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share	1707.1	1694.2	1690.2	1701.2	1704.9	1888.0	1968.3 (3/1)	1510.4 (24/9)	2008.6 (5/9/89)	49.4 (26/6/40)
Gold Mines	137.2	138.2	140.1	138.8	139.1	313.1	378.5 (6/2)	138.2 (18/12)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2178.7	2161.8	2157.9	2168.4	2172.2	2380.7	2463.7 (3/1)	1990.2 (28/9)	2463.7 (3/1/90)	986.9 (23/7/84)
FT-SE Eurotrack 100	988.28	972.98	972.00	992.71	998.21	-	1003.35 (6/12)	948.31 (27/11)	1003.35 (6/12/90)	948.31 (27/11/90)
Ord. Div. Yield	5.62	5.66	5.67	5.65	5.62	4.58				
Earning Yld %(full)	11.74	11.81	11.84	11.79	11.74	11.15				
P/E Ratio(Net)(*)	10.28	10.22	10.20	10.25	10.29	10.85				
SEAQ Bargns 4.45pm	23,829	23,605	25,305	32,604	31,637	35,623				
Equity Turnover(£m)†	-	1096.25	839.26	957.44	1315.89	1213.80				
Equity Bargains†	-	23,983	28,788	35,880	36,727	38,182				
Shares Traded (ml)†	-	531.4	314.7	444.2	518.5	451.7				

[illegible] (basis notes)

Ordinary Share Index, Hourly changes — Day's High 1708.1 — Day's Low 1698.9

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1702.9	1702.2	1700.2	1701.2	1699.8	1700.4	1703.4	1702.9	1705.3

FT-SE, Hourly changes — Day's High 2179.1 — Day's Low 2165.4

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2171.9	2169.1	2168.6	2168.9	2169.7	2171.8	2174.0	2174.3	2177.1

FT-SE Eurotrack 100, hourly changes — Day's High 973.30 — Day's Low 964.49

Open	10 am	11 am	12 pm	1 pm	2 pm	3 pm
973.30	971.19	966.66	964.49	965.21	965.54	965.87

GILT EDGED ACTIVITY

Indices	Dec 19	Dec 17
Gilt Edged Bargains	91.3	87.7
5-Day average	91.3	90.2

*SE Activity 1974. †Excluding intra-market business & Overseas turnover.

London report and latest Share Index: Tel. 0898 123001.

Flurry in Pilkington shares

THE RUSH to buy shares yesterday of Pilkington, the world's largest flat glass manufacturer, stemmed not from the group's eastern European expansion, but a marked revival in takeover speculation. News of Pilkington's $140m joint venture with HSO Sandomierz, of Poland, hardly moved the shares but the later announcement that BTR had increased its holding of Pilkington equity to 4.05 per cent certainly did. The share price jumped to 182p for a gain of 10 in turnover of 7.5m.

According to BTR, the shares were bought because they looked cheap, but market followers of Pilkington formed other opinions. "It is either building a platform to launch another bid – BTR made an unsuccessful attempt almost four years ago – or endeavouring to flush out any other potential predator," said one.

However, sector analysts Mr Furrukh Hasan and Mr William Beavington at Lehman Brothers consider Hanson to be a more likely candidate to launch a bid. They believe the cash-rich UK conglomerate has demonstrated by previous acquisitions that it is prepared to take major market shares in the building materials industry, and Pilkington obviously fits the most important criteria. "If a bid did materialise, our view is that a price of over 250p a share would result in success," they concluded.

Wellcome recovers

Wellcome's rapid rise of 20 to 463p left traders attributing this to a shortage of stock and sparked contradictory views from analysts.

Mr Ian Moore of UBS Phillips & Drew said the company had been making presentations to institutions, of which the latest was yesterday. He forecast weakness in the shares: "I think they have risen too far in a technical rally from an oversold position."

Mr Robin Gilbert at James Capel took a more positive view of the shares' performance. He suggested there was a technical position in the traded options market, with an expiry approaching, which was encouraging the buying of the shares. This was no bad thing because the stock should be at a premium and this price was "not unjustified".

A switch recommendation, issued by broking house Henderson Crosthwaite, out of Cable and Wireless and into Racal Telecom boosted the latter 4 to 289p. Cable, helped by the overall strength of the market, improved 3 to 458p.

Henderson's telecoms specialist Mr Brian Newman, said Racal Telecom and Cable were on the same market rating – 15 times earnings – but that Racal Telecom was "growing twice as fast as Cable – 20 per cent against Cable's 10 per cent". He also pointed to the greater risk factors at Cable, both from the uncertain prospect in Hong Kong and also from the duopoly review in the UK, which is expected in the new year.

Mr Newman added that the next move in Racal's installation rates "is going up", and that the problematical "churn" rate is being purged.

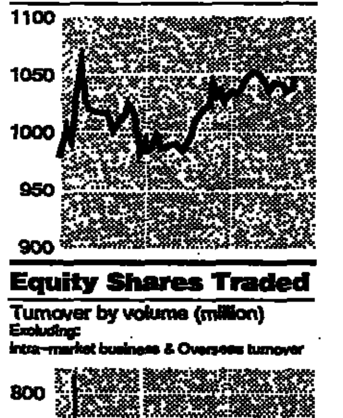
The suggestions by Astra, the Swedish maker of a drug that competes with Glaxo's big seller Zantac, that it would secure further drug approvals next year added to Tuesday's weakness in Glaxo. The shares lost another 10 to 844p.

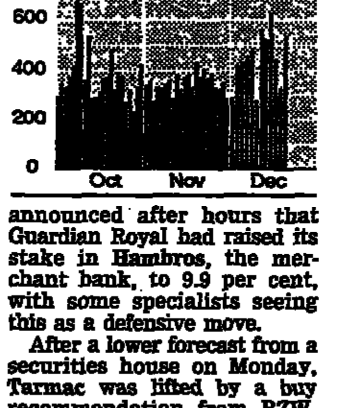
Brewing sector leaders benefited from a late run. Grand Metropolitan climbed 15 to 671p, with several traders suggesting there was some manoeuvering ahead of an American Depository Receipt listing next March. An ADR makes it easier for the shares to be traded by US institutions.

GrandMet's rise pushed other issues higher. Guinness added 8 at 784p and Scottish & Newcastle firmed 7 to 371p. The exception was Allied Lyons, down 3 at 484p, still held back by concern over a possible large overhang of shares early in the new year if Olympia & York, the Canadian property developer, disposes of a stake arising from a holding of convertible stock. That stake would add 9.4 per cent to the enlarged equity of Allied.

Stock shortages in the banks area became more acute and left good gains across the board. Lloyds added 10 at 292p and Barclays 7 at 360p. A large trade in Standard Chartered was said to have been a bed and breakfast deal.

Guardian Royal Exchange shares were heavily traded, closing 4 ahead at 190p on 6.5m amid persistent market hints of stake-building. It was announced after hours that Guardian Royal had raised its stake in Hambros, the merchant bank, to 9.9 per cent, with some specialists seeing this as a defensive move.





After a lower forecast from a securities house on Monday, Tarmac was lifted by a buy recommendation from BZW. The securities house said that while it had reduced its estimate from £220m to £190m for this year, it had increased its projection for next year from £200m to £210m. BZW's optimistic view on profits in 1991 was based on higher expectations for UK housing. Tarmac rose 6 to 239p.

Disappointing results put pressure on Harrison Industries, which sank 12 to 57p. The company announced profits of £422,000, down from the previous year's £1.7m, and stated it was taking a cautious view of business in the near term.

Croda International succumbed as Mr Ian John of County NatWest reappraised prospects for the stock. The analyst only fine-tuned expectations for the current year but lowered his estimate for 1991 by £5m to £34m. The previous figure was too high, said Mr John, because of factors ranging from sterling influences, rising depreciation on new plant and higher interest charges, to the demand downturn in the chemical industry. The shares closed 3 off at 156p.

Wall Street influences motivated fresh demand for Siebe, which rose 13 to 338p, while revived takeover hopes lifted Cookson 3 to 104p.

The big three stocks in the oil and gas group continued to perform well as crude oil prices edged higher and energy analysts maintained their positive profile on the area. In their latest monthly oil report, the Smith New Court team takes the view that "the odds favour a military conflict in the Middle East", and continues to recommend an overweight position in the sector.

Smith envisaged a downside of "perhaps 5 per cent" in the event of a peaceful outcome to the crisis, but points out that in the event of military conflict the upside could well be some 20 per cent. Smith notes that the current sector relative of 213 compares with the 300 level reached during the heat of the 1979 oil crisis.

Shell, Smith's favoured stock in the majors, improved 3 more to 462p on 4.5m.

Electronics group Unitech dropped to 207p in a belated reaction to the profits downgrading carried out at the start of the week by Unitech's broker UBS Phillips & Drew. A clumsily carried out sale of a line of 100,000 shares was said to have been behind the steep decline in the share price.

UBS lowered its full year expectation to £22m, or 15.1p a share of earnings, with the interim figure pencilled in at 5.9p of earnings, or £10m – down 19 per cent.

Yesterday was one of the lowest volume days of the year for engineering issues, and one analyst commented that "fund managers in general have decided that the underperformance of the sector has been set in stone". Against this background, British Steel featured with 24m shares traded, partly supported by a bed-and-breakfast deal. The stock closed unchanged, however, at 118p, after having risen to 120p during the day.

There was very little evidence of selling pressure in the electricity issues from private investors, many of whom received their share allotments yesterday. Turnover in the sector remained "very slow", as one dealer put it, in spite of the first trickle of selling orders from the public.

However, it was also pointed out that the Christmas post may well have held up the main body of the allotment letters. Tomorrow is seen as the day when small investors will have to decide whether to take a profit on their holdings or hold on for the long-term benefits. The so-called instant-dealing operations were said to be up and running as from yesterday.

Suggestions of big support from Japanese institutions were said to have been exaggerated. "They may well have played in a big way last week via the Package, possibly unscrambling the holdings, but even then there was no great wave of activity," it was said.

East Midland was the best performing disco yesterday, closing 3 higher at 151p on 1.5m, while Manweb, Northern and Norweb were each 2 better at 175p, 145p and 153p respectively. The Package settled £8 higher at £1523.

Press comment preaching caution on water shares put paid to any further outperformance by the sector. The weakest showing came from Yorkshire, which slipped 5 to 266p, while Northumbrian eased 4 to 280p. The Package was £22 down at £2563.

Traders acted on a belief that a line of 6m Ladbroke was overhanging the market as a result of the previous day's programme trades. Their efforts to leave the holder of any such block floundering left the shares 4 lower at 254p. There were also suggestions that a large agency broker had trimmed its forecast after a visit to the company.

European Leisure dropped 12 to 24p after the company's chairman said that "trading conditions are the worst for over a decade".

Further disturbing rumours sent shivers through the property sector. Ford Sellar Morris Properties, on the unlisted securities market, saw its share price plummet on talk that it was having difficulty refinancing some of its larger projects. The stock plummeted 19 to 23p during the day but recovered to close at 37p, down 5, after the company issued a statement denying the rumours and indicating that its bankers were satisfied with the company's situation. One specialist marketmaker commented that, in the property market's present environment, the outlook for highly geared companies was bleak. "There is no smoke without fire," he said, "and the support level is very low."

Resilience was seen in some property issues, however, with Great Portland Estates gaining 7 to 226p.

Courtney Pope recovered 10 further to 43p on a stream of small buying orders, according to a dealer. Sentiment was no doubt helped by an agency report that the rump of the company was trading profitably. Last week the shares plunged to 15p after Courtney reported a retained annual loss of £7.6m and the appointment of receivers at two lighting subsidiaries, which it had been unable to sell.

Favourable comment on the excellent mid-term results, which the chairman said reflected not only the success of acquisitions but also a good measure of organic growth from existing businesses, pushed Mosaic Investments up 13 more to 283p.

■ Other Market statistics, including the FT-Actuaries share index, Page 22

TRADING VOLUME IN MAJOR STOCKS

Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change
[illegible]				[illegible]				[illegible]				[illegible]			
Cadbury	1,800	327	-3	Lasmo	1,500	358	-5	Sears	2,300	88	+6	Wiggins Teape	1,500	183	+3
Calor Group	239	237	+3	London Elect.	2,100	148		Sedgwick	914	234	+4	Williams Hldgs.	324	230	+1
Carlton Comms.	793	377	+14	Lonrho	401	216	+1	Seaboard	1,800	150	+1	Willis Corroon	2,300	288	+7
Coats Viyella	1,800	106	+3	Lucas	1,200	145	+6	Severn Trent Water	432	285	-3	Wimpey	434	205	+3
Comm. Union	257	480	+3	MB Caradon	133	168	+3	Shell Transport	4,500	462	+3	Yorkshire Elect.	1,700	169½	+1½
Cookson	2,400	104	+3	MEPC	324	503	+8	Siebe	940	338	+13	Yorkshire Water	135	266	-5
Courtaulds	1,800	342	-1	Manpower	199	68	-2	Slough Ests	601	248	+4				
Dalgety	97	351		Manweb	1,000	175	+2	Smith (W.H.) A	470	378	+4				

Based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 4.30pm.

NEW HIGHS AND LOWS FOR 1990

NEW HIGHS (18).
CORPORATION LOANS (1) ELECTRICITY (1) FOODS (1) INDUSTRIALS (2) London International, Nu-Swift, INSURANCE (1) PAPERS (1) TRUSTS (9).
NEW LOWS (87).
AMERICANS (3) CANADIANS (1) BANKS (2) BREWERS (3) BUILDINGS (7) CHEMICALS (2) STORES (3) ELECTRICALS (7) ENGINEERING (9) INDUSTRIALS (12) Allied Partnership, Assoc. British Consultants, Bioplan, CH Industrials, Continuous Stationery, Daimler Benz, Dean & Bowes, Flexello C & W, Forwell, Hadleigh Industries, Lionheart, Petrocon, LEISURE (3) NEWSPAPERS (1) PAPERS (2) PROPERTY (5) TRUSTS (7) OILS (7) MINES (13).

APPOINTMENTS

Power station chief

■ Mr Ray Hall has been appointed executive director, production, of NUCLEAR ELECTRIC, responsible for the operation of the company's power stations, together with the engineering, technical and development support. He has been chief executive (production) since the formation of the company.

■ Mr Bernd W. Kummer, previously joint manager of BHF-BANK, Hamburg branch, has taken over from Mr Manfred Falkenmeier as general manager of the London branch, jointly with Mr Eckhard Frankenberger. Mr Falkenmeier has returned to head office in Frankfurt.

■ Mr Richard Lake will be joining HOARE GOVETT as head of technical analysis, investment research, from January 21. He was chairman of World Stockmarket Analysis.

■ Mr Mike Jenkins, managing director of Delta Extruded Metals Company, has been elected president of THE BRITISH NON-FERROUS METALS FEDERATION, succeeding Mr Jim Davidson of BICC Cables.

BRITISH BIO-TECHNOLOGY, Oxford, has appointed Mr James Noble *(pictured)* as finance director and chief financial officer. He joined the board on November 26, and previously was a director of Kleinwort Benson which advised on the company's placement of £22.7m equity finance.

■ Mr David Lowe has been appointed finance director of PALMERSTON HOLDINGS. He takes over from Mr Philip Rose who remains non-executive chairman.

■ JOHNSON & HIGGINS, a Lloyd's broker, has appointed Mr David R. Poulson as a director in its global property division. He was in the North American property department of Willis Faber.

■ CORNWELL PARKER, High Wycombe, a furniture and fabrics group, has appointed Mr Ivor Thomas as an executive director from March 1. He will take over as finance director at the end of the financial year on July 31 from Mr John Mason who is retiring. Mr Thomas is finance director of Matthew Clark.

■ Mr Peter Aldersey is to be become deputy general manager of the AVON INSURANCE COMPANY, Stratford-upon-Avon, from January 1. He is assistant general manager of Trinity Insurance Company.

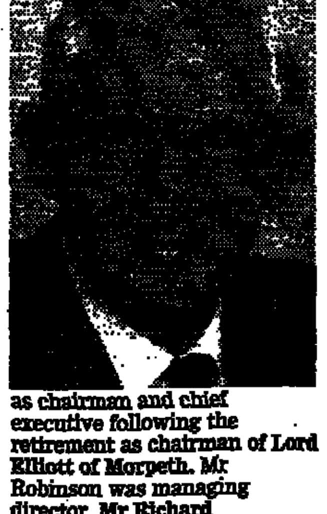
■ CONTINUOUS STATIONERY has appointed Mr W.J.A. Dacombe as a non-executive director. He is a managing director and a founder of Campbell Lutyens Hudson & Co, investment bank.

■ Mr Adrian Evans, managing director of BENCHMARK GROUP, is resigning from the board on December 31 to take up a position elsewhere. Mr Ron Williams, managing director of the group's banking subsidiary will, in addition to his existing responsibilities, take over as managing director.

■ Mr Phil Buckle is to be appointed managing director of BLUE CIRCLE BATHROOM PRODUCTS GROUP on January 1. He succeeds Mr Tim Bennett who is retiring at the end of December. Mr Buckle was appointed managing director of the garden products group within Blue Circle Home Products in January.

Metro Radio changes

■ METRO RADIO GROUP, Newscastle upon Tyne, has appointed Mr Neil Robinson *(pictured)*



as chairman and chief executive following the retirement as chairman of Lord Elliott of Morpeth. Mr Robinson was managing director. Mr Richard Huntingford, director of corporate development, Chrysalis Group, Mr Tony Vickers, managing director designate of TV-am, and Mr Philip Pinnegar, chairman and chief executive of Capital Radio, all become non-executive directors. Mr Eric Lawrence, financial controller, has been appointed company secretary.

LONDON SHARE SERVICE

BRITISH FUNDS

1990 High	1990 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
[illegible]						

"Shorts" (Lives up to Five Years)

[illegible]						

Five to Fifteen Years

[illegible]						

Over Fifteen Years

[illegible]						

Undated

[illegible]						

BRITISH FUNDS—Contd

Index-Linked

1990 High	1990 Low	Stock	Price £	+ or -	Yield (1)	Yield (2)
[illegible]						

[illegible] (index-linked notes)

INT. BANK AND O'SEAS

[illegible]						

CORPORATION LOANS

[illegible]						

COMMONWEALTH & AFRICAN LOANS

[illegible]						

LOANS

Building Societies

[illegible]						

Public Board and Ind.

[illegible]						

FOREIGN BONDS & RAILS

[illegible]						

AMERICANS

[illegible]							

AMERICANS—Contd

1990 High	1990 Low	Stock	Price £	+ or -	Div Gross	C'vr	Y'ld Gr's
19¾	524p	Chem. Banking Corpn.	600p	+37	$1.00	-	8.4
12½	5¾	Chrysler $6¼	6⅞	+⅛	$1.20	-	8.8
[illegible]							

CANADIANS

[illegible]							

Continued on next page

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BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ELECTRICALS – Contd

[illegible]

ELECTRICITY

[illegible]

ENGINEERING

[illegible]

ENGINEERING – Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INDUSTRIALS (Miscel.) – Contd.

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

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MOTORS, AIRCRAFT TRADES — Contd

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

PROPERTY — Contd

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRANSPORT

INVESTMENT TRUST

INVESTMENT TRUST — Contd

INVESTMENT TRUST — Contd

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

WATER

OIL AND GAS

OIL AND GAS — Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES — Contd

Tins

Miscellaneous

THIRD MARKET

For Caspen Oil see OIL AND GAS

For M.L. Labs see INDUSTRIALS (Misc)

1990 High	Low	Stock	Price	+ or -	Div Net	C'vr	Y'ld Gr's	P/E
6¼	3½	Moray Firth 1p.... γ	3½	....	–	–	–	–
45	19	Navan Resources. γ	19	..	–	–	–	–
57	20	Ovoca Gold IR 2p...γ	21	..	–	–	–	–
72	15	Oxford Virology 5p ..γ	15	.	–	–	–	–
83	61	Poddington 5p.....	77	...	–	–	–	–
118	65	Ramsden's (Harry) .. γ	85	–8	4.5	♦	7.4	♦

For Rentaminster see INDUSTRIALS

1990 High	Low	Stock	Price	+ or -	Div Net	C'vr	Y'ld Gr's	P/E
38	5	Sempernova. ... γ	6	.....	–	–	–	1.3
36	13	Sleepy Kids 5p. . γ	13	...	–	–	–	–
3½	1¼	Systems Connections.γ	1¼	...	–	–	–	–
94	46	Tomorrows Leisure 20p γ	51	....	1.0	4.4	2.6	9.3
55	27	UPL Group 10p.. γ	32	...	–	–	–	–
89	8	Video Magic Lets. 1p γ	8	...	–	–	–	–
6¼	1¼	Vista Ents 5p ... γ	1¼	...	–	–	–	–
5½	1¼	Wilton Group 1p...γ	1½	....	–	–	–	5.1

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Highs and lows are based on intra-day mid prices. Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- ¶ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement.
- † Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1990-91. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1991. K Dividend and yield based on prospectus or other official estimates for 1990. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1991. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Stock	Price	+ or -
Craig & Rose £1.. γ	700	......
Finlay Pkg. 5p.... γ	38	+2
Holt (Jos) 25p..... γ	1305	.....

IRISH

Stock	Price	+ or -
Con. 8½% Ln. 1991...	£98¼	......
9pc Cap Ln. 1996 ..	£94	......
Fin. 13% 97/02...	£111¼	–½
Arnotts.....	160	......
Carrol (P.J.).	154	....
Helton Hldgs. .... γ	43	+3
IRG....	135	.....
United Drug....	140	....

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	40
Amstrad	6
Astec (BSR)	4½
BAT	46
BOC Grp.	28
BTR	25
Barclays	30
Blue Circle	19
Boots	29
Bowaters	43
Brit Aerospace	45
British Steel	10½
Brit. Telecom	25
Cadburys	28
Charter Cons.	38
Comm Union	40
Courtaulds	28
Eurotunnel	35
FKI	5
FNFC	28
Gen Accident	41
GEC	15
Glaxo	68
Grand Met.	51
Guardian	17
GKN	27
Hanson	16
Hawker Sidd	35
ICI	70
Ladbroke	22
Legal & Gen.	32
Lex Service	17
Lloyds Bank	24
Lucas Inds.	11
Marks & Spencer	19
Midland Bk.	16
Nat West Bk.	21
P & O Dfd	44
Racal Elect.	16
RHM.	23
Rank Org Ord.	52
Reed Intnl	32
STC	19
Sears	7½
SmKl. Beecham A	41
TI	39
TSB	11
Tesco	19
Thorn EMI	55
Trust Houses	23
T&N	13
Unilever	52
Vickers	16
Wellcome	33

Property

Stock	p
Brit Land	24
Control Secs.	3½
Land Securities	45
MEPC	38
Mountleigh	9

Oils

Stock	p
Aviva Petlm.	3½
Brit Petroleum	27
Burmah Castrol	46
Conroy Petlm	15
Gaelic Res.	1½
Premier	7
Shell	37
Tuskar Res.	2
Ultramar	29

Mines

Stock	p
Lonrho.	19
RTZ.	48

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1,050 a year for each security shown, subject to the Editor's discretion.

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AUTHORISED UNIT TRUSTS

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Abbey Unit Tst Mngrs (1000)H						
80 Holdenhurst Rd, Bournemouth 0345 717373						
High Income						
American Income	6	40.35	40.74	43.33	+0.19	6.32
Gilts & Fixed Int	6	109.8	109.8xd	116.5	-0.2	9.87
High Inc Equity	6	117.9	121.2	128.9	+0.4	4.93
Worldwide Bond	6	194.4	194.4xd	206.1	+0.7	7.28
Capital Growth						
American Growth	6	152.4	152.4	162.9	+1.6	1.18
Asian Pacific	6	97.12	99.17	105.5	-0.1	0.19
Assets & Earnings	6	144.6	148.2xd	157.6	+0.3	3.44
Capital Reserve Acc	0	99.70	99.70	99.82	-0.18	7.15
Capital Reserve Inc	0	83.80	83.80	83.89	-0.20	7.15
Comdty & Energy	6	69.74	69.74	74.58	+0.10	1.33
1992 Enterprise	6	55.95	56.73	60.35	+0.09	3.53
Euro Capital Acc	6	84.19	84.19	90.04	+0.03	1.33
Euro Capital Inc	6	80.84	80.84	86.45	+0.03	1.33
General	6	150.5	150.5	160.9	+0.3	3.11
Japan	6	84.47	84.47	90.34	+0.28	0.00
Mastertrust	6	76.58	76.58	81.90	+0.17	3.14
UK Growth Acc	6	136.0	136.0	145.4	-0.2	3.03
UK Growth Dist	6	87.97	87.97	94.08	-0.10	3.03
US Emerging Cos	6	42.86	42.86	45.83	+0.41	0.00
Income & Growth	6	262.3	262.3xd	280.5	+0.3	1.65
Ethical	6	41.14	42.28	44.97	-0.02	2.22
International	6	51.22	51.22	54.78	-0.06	0.91
Dividend & Growth	6	42.11	43.23	45.98	+0.09	4.89
Global Grth & Sec	6	47.76	48.10	51.17	+0.11	1.95
Abtrust Management Ltd (1200)H						
10 Queens Terrace, Aberdeen AB9 1QJ 0800 833580						
Amer Inc & Growth	5¼	24.48	24.48	25.96	+0.10	3.05
Cash	–	50.21	50.21xd	50.21	+0.02	13.05
European	5¼	67.66	67.66	71.81	-0.12	0.00
European Income	5¼	70.45	70.45xd	74.96	-0.15	1.65
Exempt	1	668.9	668.9	691.4	+0.7	3.38
Exempt Income	3¼	157.0	157.0	167.1	+0.2	5.09
Exempt American	3¼	285.2	285.2	296.8	+1.3	1.91
Exempt Pacific	3¼	184.8	184.8xd	192.8	+0.1	2.02
Extra Income	5¼	35.69	35.69xd	38.10	+0.08	6.54
Far East Emerg Econ	5¼	39.28	39.30	42.09	+0.02	1.52
Fund Inv Tst	5	97.57	97.57	104.1	-0.24	1.66
Fund Inv Tst Acc	5	155.2	155.2	165.7	-0.4	1.66
Gilt & Fixed Int	5¼	15.71	15.87xd	16.94	.....	12.74

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Brown Shipley & Co Ltd (1000)F						
9-17 Perrymount Rd Haywards Hth 0444 412262/3/4/5						
Mngd P'folio Inc	6	70.60	70.60	75.19	-0.24	3.47
Mngd P'folio Acc	6	125.9	125.9	134.1	-0.40	–
UK General	6	102.4	102.4	109.1	+0.20	4.97
Cons & General	6	16.71	16.71xd	17.80	+0.05	0.86
European Inc	6	19.09	19.36	20.58	–	0.55
European Acc	6	19.51	19.78	21.03	-0.01	–
Exempt	3	251.9	251.9xd	267.1	+0.60	4.91
Financial	6	103.7	103.7	110.4	-1.70	6.10
German	6	34.74	34.74xd	37.20	+0.06	0.11
High Income	6	59.56	59.56	63.43	-0.71	8.05
Income	6	84.76	88.87	94.20	+0.34	5.98
Intl Income	6	74.53	75.55	80.44	+0.65	4.79
Intl Growth ♣	6	23.12	23.12	24.62	+0.14	0.28
Monthly Income	6	47.96	49.84	52.83	+0.12	5.32
North American	6	52.12	52.12xd	55.51	+0.03	0.39
Orient ♣	6	87.59	87.59	93.28	+0.25	–
PEP	5	49.07	49.07	51.77	-0.12	5.01
Recovery	6	31.39	31.39xd	33.43	-0.08	2.88
Smaller Cos Acc	6	167.1	167.1	178.0	-1.70	–
Smaller Cos Inc	6	100.9	100.9	107.5	-1.00	2.76
Brycourt Unit Tst Mngmt Ltd (1400)F						
Hesketh Hse, Portman Sq, W1H 0JR 071-935 6382						
Income Growth	1	165.3	165.3	171.7	...	6.87
Buckmaster Mangmt Co Ltd (1200)H						
15 St Botolph Street, London EC3A 7JJ 071-247 4542						
Emerging Grth	5¼	44.16	44.16	46.81	-0.04	4.90
(Accum Units)	5¼	46.35	46.35	49.13	-0.04	4.90
Fellowship Tst ♥	5¼	49.04	50.06	53.26	+0.04	4.08
(Accum Units) ♥	5¼	52.09	53.17	56.57	+0.04	4.08
General Inc	5¼	240.4	240.4	254.8	+1.5	4.32
(Accum Units)	5¼	426.0	426.0	451.6	+2.7	4.32
Income	5¼	139.1	139.1	147.4	+0.6	6.32
(Accum Units)	5¼	288.8	288.8	306.1	+1.5	6.32
International ♥	5¼	84.74	84.74	89.82	+0.80	2.84
(Accum Units) ♥	5¼	117.1	117.1	124.1	+0.10	2.84
Smaller Co's	5¼	78.13	78.13xd	82.82	-1.23	3.22
(Accum Units)	5¼	88.95	88.95	94.29	+0.12	3.22
Inv Portfolio ♥	3	45.98	45.98	47.59	+0.23	4.10
(Accum Units) ♥	3	48.87	48.87	50.58	+0.26	4.10
High Income Port ♥	3	40.80	40.80	42.23	+0.06	6.59
Burrage Unit Tst Mangmt Ltd (0905)F						
117 Fenchurch St, London EC3M 5AL 071-480 7216						
Short Dated Gilt	1¼	60.37	60.37	61.24	-0.13	12.73
CCF Foster Braithwaite UT Mngt (1100)F						
1 White Hart Yard, London SE1 1NX 071-407 5966						
CCF Sel High Inc Eqty	5¼	42.69	43.47xd	46.25	+0.12	6.04
CCF Sel High Inc Eq Acc	3	44.65	45.47xd	48.37	+0.12	6.04
CCF Sel Intl Grwth	5¼	38.56	38.56xd	41.70	-0.39	0.00

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Martin Currie Unit Trusts Ltd (0905)H						
48 Melville St, Edinburgh EH3 7HF Dlng 031-220 4924						
Far East (Pac/Hold)	5¼	78.78	78.78	83.63	-0.07	0.50
Income & Growth	5¼	52.25	53.25xd	56.52	+0.12	6.19
European (z) ♦	5¼	50.62	51.02	54.16	+0.09	1.08
Nth American (z)	5¼	30.03	30.03	31.87	+0.22	1.64
Intl Growth(9-1)	5¼	51.12	52.26	55.47	+0.06	0.91
UK Growth	5¼	45.81	45.81xd	48.63	+0.18	3.56
Intl Income	5¼	41.94	42.45xd	45.06	-0.37	7.10
High Yield	5¼	40.99	41.57	44.12	+0.11	8.24
Chartflex	5¼	80.22	81.39xd	86.40	-0.19	7.08
Japan	5¼	34.49	34.49	36.61	.....	–
Martineau Unit Trust Managers Ltd (1200)H						
Admin: 5 Rayleigh Rd, Hutton, Brentwood, Essex						
Enquiries: 0277 227300 Dealing: 0277 261010						
UK Growth (4-1)	6	58.87	59.46	63.59	+0.10	3.88
UK High Income	6	30.82	30.82	32.96	+0.01	6.13

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
NM Unit Trust Mngrs (1200)H						
The Sifton Centre, North Harbour, Portsmouth						
Enquiries: 0705 372222 Dealing: 0705 387730						
American ♥	5¼	25.18	25.18xd	26.85	+0.16	1.90
(Accum Units) ♥	5¼	27.11	27.11	28.91	+0.18	1.90
Australian ♥	5¼	133.30	134.00	143.70	+0.30	2.49
(Accum Units) ♥	5¼	131.80	152.60	163.70	+0.30	2.49
Conscience	5¼	42.34	43.28xd	46.18	+0.10	1.69
(Accum Units)	5¼	44.42	45.39	48.44	+0.10	1.69
European	5¼	131.70	131.70	140.40	+0.10	1.11
(Accum Units)	5¼	139.00	139.00	148.20	+0.10	1.11
Extra Income	5¼	57.44	57.44	61.30	+0.21	9.97
(Accum Units)	5¼	76.61	76.61	81.76	+0.27	9.97
Far East Gth Acc ♥	5¼	95.07	95.07	101.60	-0.28	0.30
Gilt & F.I.	5¼	50.93	50.93	53.90	-0.03	9.29
(Accum Units)	5¼	103.60	103.60	109.60	.....	9.29

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071—379 – 0444.

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TSB Unit Trusts (1200)H
Charlton Pl, Andover, Hants. SP10 1RE 0264 346794

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
TSB American	6	106.59	107.34	114.19	+0.81	0.74
Do Accum	6	116.52	117.34	124.82	+0.89	0.74
TSB Gilt Growth	6	64.23	65.13	69.28	+0.11	3.95
Do Accum	6	71.01	72.01	76.6	+0.13	3.95
TSB European	6	66.29	66.67	70.92	+0.06	1.23
Do Accum	6	68.7	69.1	73.5	+0.07	1.23
TSB Extra Income	6	140.23	143.36	152.5	+0.17	6.11
Do Accum	6	198.33	202.75	215.69	+0.25	6.11
TSB Smaller Cos	6	37.98	39.69	42.22	-0.05	3.26
Do Accum	6	39.82	41.62	44.27	-0.02	3.26
TSB General	6	197.42	197.42	210.02	+0.52	4.21
Do Accum	6	361.92	361.92	385.02	+0.95	4.21
TSB Premier Income	5	41.57	41.57	43.3	-0.06	9.56
Do Accum	5	73.1	73.1	76.14	-1.16	9.56
TSB Income	6	259.41	264.62	281.51	+1.35	5.66
Do Accum	6	482.26	491.97	523.37	+2.52	5.66
TSB Pacific	6	191.76	194.93	207.37	-0.27	0.32
Do Accum	6	199.01	202.83	215.77	-0.28	0.32
TSB International	6	328.31	328.31	349.26	+0.85	1.58
Do Accum	6	421.12	421.12	448.0	+1.1	1.58
TSB Nat Resources	6	59.05	54.32	57.78	+0.1	1.32
Do Accum	6	57.54	58.92	62.68	+0.1	1.32
TSB Sictal Opps	6	68.91	70.66	75.16	+0.13	3.84
Do Accum	6	82.24	84.32	89.7	+0.15	3.84
Environmental Inv	6	40.37	41.07	43.69	+0.13	2.7
Do Accum	6	41.29	42.01	44.69	+0.14	2.7
TSB Selector	6	41.88	42.62	45.33	+0.1	4.66
Do Accum	6	43.16	43.91	46.71	+0.11	4.66
TSB High Income	6	43.9	44.53	47.37	+0.16	6.65
Do Accum	6	45.2	45.85	48.77	+0.16	6.65
TSB Intl Income	6	47.42	47.61	50.64	+0.02	7.01
Do Accum	6	47.42	47.61	50.64	+0.02	7.01
TSB Selector Income	6	44.87	45.4	48.29	+0.1	6.83
Do Accum	6	44.87	45.4	48.29	+0.1	6.83

Target Trust Mngrs Ltd (1600)F
Target Hse, Gatehouse Rd, Aylesbury, Bucks.
Admin: 0296 394000 Dealing: 0296 312256

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
American Eagle	5	60.96	60.96	65.08	+0.41	1.18
Australia	5	5.127	5.127	5.488	[illegible]	4.86
Equity	5	141.6	141.6	152.1	+0.4	5.06
Euro Spec Sits	5	96.91	96.91	104.0	+0.3	0.66
Financial	5	25.20	25.33	27.28	+0.26	5.47
Global Opps Inc	5	57.31	57.31	61.68	+0.29	1.73
Global Opps Acc	5	58.56	58.56	63.02	+0.30	1.73
Gold & Gen Inc	5	33.26	33.26	35.76	+0.02	1.54

M & G Securities Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Charibond	98.6	98.6	—	10.95
(Accum Units)	522.8	522.8	—	10.95
NAACIF Dec 18	—	40.34	—	9.90

MIM Ltd
Exempt Funds

	Bid Price	Offer Price	+ or -	Yield Gross
Intl Mngd P'Folio	970.0	1048.0	—	—
Mngd Pens (Acc)	57.5	61.3	—	—

Morgan Grenfell Unit Trust Managers Ltd
Exempt Funds

	Bid Price	Offer Price	+ or -	Yield Gross
UK Equity † Dec 11	111.9	119.9	—	3.20
UK Small Co † Dec 11	429.9	472.9	—	2.25
Fixed Interest † Dec 11	100.9	106.1	—	8.33
US Small Co Dec 11	104.7	112.0	—	0.00
Managed Dec 11	96.05	102.0	—	2.57
Intl Bond Dec 11	106.8	112.6	—	8.09
Japan Dec 11	63.04	67.20	—	1.01
European Dec 11	78.87	84.40	—	1.73
Nth American Dec 11	79.98	85.72	—	1.62

Murray Johnstone UT Mngmt
Murray Exempt Funds

	Bid Price	Offer Price	+ or -	Yield Gross
Amer Expt Dec 19	39.2	40.7	—	2.60
Euro Expt Dec 19	47.0	49.3	—	2.91
Fixed Int Ex Dec 19	44.1	45.2	—	11.95
Japan Expt Dec 19	40.0	42.0	—	0.76
Managed Ex Dec 13	38.5	40.0	+0.20	5.06
SE Asia Expt Dec 19	55.0	57.7	—	6.90
Sm Cos Expt Dec 19	28.0	29.4	—	5.90
UK Eqty Ex Dec 19	36.0	37.8	—	5.19

Phillips & Drew Fund Management Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Small Co's Dec 5	592.63	634.6	—	5.78
Do Accum	659.2	705.8	—	5.78
Int Expt Dec 12	149.86	151.90	—	3.0
UK Index Dec 10	999.3	1019	—	6.07
Do Accum	1056	1076	—	6.07
Convertible Dec 14	81.15	83.87	—	9.14
World ex UK Index Dec 17	658.3	667.0	—	3.05
Do Accum	658.3	667.0	—	3.05
Japan Index Dec 17	529.4	537.1	—	0.56
Do Accum	530.4	538.0	—	0.56
USA Index Dec 17	766.4	771.0	—	3.47
Do Accum	777.2	781.8	—	3.47
Europe ex UK Index Dec 17	802.5	822.5	—	2.48

INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

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N & P Life Assurance Ltd

6-7 Bedford Row, London, WC1R 4UJ 071-430 2348

	Bid Price	Offer Price	+ or -	Yield Gross
Life Managed Fd	91.0	95.8	+0.2	-
Pension Managed Fd	86.9	91.4	----	-
Life Deposit Fd	103.0	108.4	----	-
Pension Deposit Fd	106.3	111.9	----	-

National Financial Management Corp PLC

72 Gatehouse Rd, Aylesbury, HP19 3XJ 0296 395539

	Bid Price	Offer Price	+ or -	Yield Gross
Life Funds				
Managed Cautionary	98.9	104.2	-0.3	-
Managed Growth	121	127.4	-1.3	-
Managed Opportunity	116.6	122.8	-1.4	-
NFMC Target Financial	87.6	92.3	----	-
Pension Funds				
Managed Cautionary	104.5	110.1	-0.2	-
Managed Growth	125.3	131.9	-0.2	-
Managed Opportunity	117.4	123.6	-0.2	-
NFMC Target Mngd Pen	1346.5	1417.4	+8.1	-

National Mutual Life

The Priory, Priory Pk, Hitchin, SG5 2DW 0462 422422

	Bid Price	Offer Price	+ or -	Yield Gross
Harvester Pension Funds				
Managed	141.9	149.4	+0.2	-
UK Equity	147.5	155.3	+0.8	-
Overseas Equity	113.3	119.3	-0.6	-
Fixed Interest	134.7	141.8	-0.6	-
Property	127.4	134.2	+0.4	-
Index Linked	143.4	151.0	-1.1	-
Deposit	147.7	155.5	+0.4	-
With Profits (B)	124.0	130.6	+0.3	-

National Provident Institution

48 Gracechurch St, London EC3P 3HH 071-623 4200

	Bid Price	Offer Price	+ or -	Yield Gross
Managed	309.7	326.0	+0.6	-
UK Equity	388.1	408.6	+0.7	-
Overseas Eq	292.6	308.0	+1.4	-
Americas	218.8	230.4	+1.8	-
Far East	302.1	318.1	----	-
Property	193.2	203.4	----	-
Fixed Int	241.8	254.6	-0.2	-
Indexed Gilt	149.3	157.2	-0.7	-
Deposit	173.9	183.1	----	-
Pension Fund (Accum Units)				
Managed	429.5	452.2	+0.7	-
UK Equity	497.0	523.2	+1.0	-
Overseas Eq	481.0	506.4	+1.4	-
Americas	285.7	300.8	+2.2	-
Far East	506.4	533.1	+0.2	-
Property	240.2	252.9	----	-
Fixed Int	295.3	310.9	-0.5	-
Indexed Gilt	164.5	173.2	-0.7	-

Bryan Walls & Partners Ltd

Cameron Law & Company Ltd

Guinness Flight Fd Mngrs (Guernsey) Ltd

PO Box 250, St Peter Port, Guernsey 0481 712176

GUERNSEY (REGULATED)

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

OFFSHORE INSURANCES

MANAGEMENT SERVICES

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	Bid Price	Offer Price	+ or −	Yield Gross
M & G (Guernsey) Ltd				
Island Gold	1464.90	1558.4	−16.9	1.40
(Accum. Units)	2664.10	2823.5	−30.6	1.40
Merrill Lynch Guernsey				
Bangkok NAV Dec 12		$63.96		–
Korea Portfolio NAV		$9.85		–
NM Financial Mgmt Intl Ltd				
Mngt Currency (Susp)	£–	–		–
NM Portfolio Selection Fund Ltd (Suspended)				
Convergence	£–	–		–
Far East Gwth	$–	–		–
Smaller Co's	£–	–		–
Special Sits	£–	–		–
Intl Bond	$–	–		–
American Fund	$–	–		–
American Smaller Cos	$–	–		–
Australian Fund	£–	–		–
British Fund	£–	–		–
European Fund	£–	–		–
Gold Fund	£–	–		–
Hong Kong Fund	£–	–		–
International Fund	£–	–		–
Japanese Fund	£–	–		–
Japan Smaller Cos	£–	–		–
Singapore & Malaysian	£–	–		–
Dollar Fixed Interest	$–	–		–
Sterling Fixed Int	£–	–		–
Deutschmark Currency	DM–	–		–
Dollar Currency	$–	–		–
Sterling Currency	£–	–		–
Yen Currency	Y–	–		–
Managed Currency	£–	–		–
Nikko Capital Mngt (Europe) Ltd				
Japan Index Fund	Y2.685	2.712		–
New Generation Fd S	$21.64	21.87		–
Japan Index Alpha	Y7.634	7.749		–
Jap Sector Rotation	Y6.935	7.037		–
Jap Cap Gwth CB	[illegible]	[illegible]		–
Prudential Intl Financial Services Ltd				
Reliance Currency Fund				
Managed Sterling	129.9	130.3	−0.1	10.78
Managed Dollar	$14.23	14.28	−0.01	7.60
Sterling Deposit	100.0	100.0	—	10.37
Dollar Deposit	$10.00	10.00	—	–
DM Deposit	DM50.52	50.71	+0.02	6.18
SWFr Deposit	SF50.00	50.00		
J. Yen Deposit	Y5.042	5.061	[illegible]	[illegible]

Hill Samuel Fund Mgrs (Jsy) Ltd (1000)F

Lloyds Bank (CI) U/T Mgrs.

Midland Bank Fund Managers (Jersey) Ltd

MIM Britannia International (Jersey) Ltd

Royal Trust Jsy Fd Mngt Ltd (1400)F

TSB Trust Funds (CI)

IRELAND (SIB RECOGNISED)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

[illegible]

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

DM benefits from US rate cut

THE D-MARK was the main beneficiary yesterday of the reduction in US interest rates as investors continued to believe that German monetary policy will be tightened in the new year.

Sterling, the French franc and the Japanese yen all suffered from the mark's strength, while the dollar was underpinned by renewed concern over the Gulf crisis.

Turnover in the currency markets was low with much of the day's business confined to position squaring and other technical transactions before the year end.

The reduction in the US discount rate to 6.5 per cent from 7 per cent came earlier than many analysts had anticipated and triggered a modest flow of funds from the dollar into the mark.

The cut in US rates initially caused the dollar to fall although by the time the European markets had opened the US currency had already begun to claw back some of its lost ground, particularly against the yen.

The news that US third quarter gross national product was revised to up 1.4 per cent from a previous estimate of 1.7 had little impact on the dollar.

Analysts said the two-way pull on the dollar is likely to continue. The weakness of the US economy could force further easing in monetary policy, which will weaken the dollar. But the threat of military conflict in the Gulf could provide the dollar with support as a safe haven currency.

The dollar closed lower at DM1.4785 from DM1.4840; at SFr1.2695 from SFr1.2700; at FFr5.0400 from FFr5.0550. The dollar's index rose 0.1 to 60.9.

Sterling was another victim of the mark's strength as talk of an EMS realignment swirled around the market. A report that UK interest rates could be cut even if sterling remains at the bottom of the Exchange Rate Mechanism was a further source of weakness.

However, most analysts thought an early cut interest rates highly unlikely. "With sterling at DM2.85 the idea that a cut in rates will have no impact on it is overly optimistic, to say the least," said Mr Christian Dunis of Chemical Bank.

Sterling closed lower at DM2.8550 from DM2.8725; at \$1.9315 from \$1.9350; at SFr2.4525 from SFr2.4575; at FFr9.7350 from FFr9.7825. Sterling's index closed at 93.1, down 0.2 point.

The absence of a diplomatic solution to the Gulf crisis continued to undermine the yen. Since Iraq invaded Kuwait, Japan's dependence on imported oil has left the yen vulnerable to any worries over tension in the Gulf.

The dollar rose to Y134.10 from Y133.25, the mark advanced to Y90.65 from Y89.75.

The French franc also came under pressure following the reluctance of the monetary authorities to raise French interest rates. The mark closed at FFr3.410 from FFr3.405.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Dec 19	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Spanish Peseta	133.631	130.503	-2.34	4.65	41
D-Mark	2.05586	2.03700	-0.92	3.15	55
Dutch Guilder	2.31643	2.29817	-0.79	3.01	36
Belgian Franc	42.4032	42.1699	-0.55	2.77	24
Irish Punt	0.767417	0.766968	-0.07	2.28	1
Italian Lira	1538.24	1542.36	0.27	1.93	-16
Danish Krone	7.84195	7.89028	0.62	1.58	-31
French Franc	6.89509	6.95860	0.92	1.27	-54
Sterling	0.696904	0.712255	2.20	0.00	-42

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. Adjustment calculated by Financial Times.

£ IN NEW YORK

Dec.19	Latest	Previous Close
£ Spot	1.9295-1.9305	1.9420-1.9430
1 month	1.02-1.00pm	1.04-1.02pm
3 months	2.83-2.80pm	2.75-2.72pm
12 months	9.05-8.95pm	8.70-8.60pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Dec.19	Previous
8.30 am	93.3	93.2
9.00 am	93.1	93.2
10.00 am	93.1	93.3
11.00 am	93.1	93.3
Noon	93.2	93.2
1.00 pm	93.2	93.3
2.00 pm	93.0	93.3
3.00 pm	93.0	93.3
4.00 pm	93.1	93.3

CURRENCY MOVEMENTS

Dec 19	Bank of England Index	Morgan** Guaranty Changes %
Sterling	93.1	-19.0
U.S Dollar	60.9	-18.2
Canadian Dollar	101.8	+0.3
Austrian Schilling	111.3	+12.7
Belgian Franc	112.9	-1.4
Danish Krone	111.1	+5.2
D-Mark	121.6	+27.0
Swiss Franc	114.9	+23.4
Dutch Guilder	116.4	+17.5
French Franc	105.2	-11.6
Lira	100.3	-19.2
Yen	130.0	+65.2

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100). **Rates are for Dec. 18.

CURRENCY RATES

Dec 19	Bank rate %	Special * Drawing Rights	European † Currency Unit
Sterling	-	0.741213	0.712255
U.S Dollar	7	1.43143	1.37821
Canadian $	12.82	1.65531	1.59377
Austrian Sch	6½	14.9842	14.3293
Belgian Franc	10¼	44.0666	42.1699
Danish Krone	10½	8.23072	7.89028
D-Mark	6.00	2.12825	2.03700
Dutch Guilder	7.25	2.40122	2.29817
French Franc	10¼	7.24661	6.95860
Italian Lira	12½	1609.24	1542.36
Japanese Yen	6	190.595	184.543
Norway Krone	8	8.36599	8.01156
Spanish Peseta	-	136.276	130.503
Swedish Krona	11	8.02746	7.70215
Swiss Franc	6.00	1.81935	1.74482
Greek Drach	20½	N/A	213.334
Irish Punt	-	N/A	0.766868

† European Commission Calculations. * All SDR rates are for Dec. 18

OTHER CURRENCIES

[illegible]

* Selling rate

POUND SPOT - FORWARD AGAINST THE POUND

Dec 19	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.9285 - 1.9420	1.9310 - 1.9320	1.02-1.00cpm	6.27	2.83-2.79pm	5.82
Canada	2.2320 - 2.2440	2.2430 - 2.2440	0.51-0.42cpm	2.49	1.24-1.09pm	2.08
Netherlands	3.2150 - 3.2270	3.2150 - 3.2250	1¼-1⅛cpm	4.43	3⅛-3⅛pm	3.96
Belgium	58.95 - 59.30	58.95 - 59.05	24-19cpm	4.37	62-49pm	3.76
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Commercial rates taken towards the end of London trading. Six-month forward dollar 5.23-5.16cpm. 12 Month 9.05-8.90cpm

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

[illegible]

Commercial rates taken towards the end of London trading. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EURO-CURRENCY INTEREST RATES

[illegible]

EXCHANGE CROSS RATES

Dec.19	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
[illegible]										
F Fr.	1.027	1.985	2.933	266.1	10.	2.520	[illegible]	[illegible]	[illegible]	[illegible]
S Fr.	0.408	0.788	1.164	105.6	3.969	1	[illegible]	880.1	0.915	24.05
H Fl.	0.311	0.600	0.887	80.43	3.023	0.762	1	670.5	0.697	18.32
Lira	0.463	0.895	1.322	120.0	4.509	1.136	1.491	1000.	1.039	27.33
C $	0.446	0.861	1.272	115.4	4.338	1.093	1.435	962.1	1	26.29
B Fr.	1.695	3.275	4.839	439.0	16.50	4.158	5.458	3659	3.803	100.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100

FINANCIAL FUTURES AND OPTIONS

[illegible]

THREE MONTH EUROMARK
DM 1m points of 100%

	Close	High	Low	Prev.
Mar	90.81	90.86	90.68	90.67
Jun	90.95	90.97	90.84	90.82
Sep	91.00	91.04	90.99	90.95
Dec	91.11	91.10	91.09	91.06
Mar	91.20			91.15
Jun	91.20			91.15
Sep	91.20	91.19	91.19	91.15
Dec	91.20			91.15

Estimated volume 15703 (67621)
Previous day's open int. 62552 (62216)

THREE MONTH ECU
ECU 1m points of 100%

	Close	High	Low	Prev.
Mar	89.86	89.88	89.80	89.74
Jun	90.14	90.14	90.07	90.02
Sep	90.31	90.30	90.30	90.19
Dec				

Estimated volume 167 (60)
Previous day's open int. 953 (973)

FT-SE 100 INDEX
£25 per full index point

	Close	High	Low	Prev.
Dec	2193.0	2194.0	2183.0	2178.5
Mar	2233.0	2233.0	2222.0	2217.0
Jun	2265.0	2266.0	2263.0	2249.0

Estimated volume 5276 (4390)
Previous day's open int. 29864 (29363)

POUND-$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.9315	1.9214	1.9034	1.8796	1.8418

IMM-STERLING $s per £

	Latest	High	Low	Prev.
Mar	1.9040	1.9070	1.9020	1.9066
Jun	1.8816	1.8840	1.8784	1.8828
Sep	-	-	-	1.8828

	Open	Close	Change	High	Low	Yield	Open int.
December	89.66	89.72	+0.06	89.73	89.64	10.28	16,800
March	89.73	89.80	+0.07	89.80	89.72	10.20	3,888
June	89.80	89.92	+0.12	89.92	89.80	10.09	1,543
September	89.85	89.85	-	89.85	89.85	10.13	10

Estimated volume 9,009 Total Open Interest 22,241

CAC-40 FUTURES (MATIF) Stock index

	Open	Close	Change	High	Low	Open int.
December	1615.0	1591.0	-6.0	1615.0	1578.0	6,682
January	1621.0	1602.0	-6.5	1621.0	1588.0	2,398
February	1624.0	1609.0	-8.5	1626.0	1606.0	78
March	-	-	-	-	-	210

Estimated volume 10,150 Total Open Interest 9,368

BASE LENDING RATES

	%		%		%
ABN Bank	14	Coutts & Co	14	NatWestminster	14
Adam & Company	14	Cyprus Popular Bk	14	Northern Bank Ltd	14
Allied Trust Bank	14	Dunbar Bank PLC	14	Nykredit Mortgage Bank	14½
AIB Bank	14	Duncan Lawrie	14	Provincial Bank PLC	15
● Henry Ansbacher	14	Equatorial Bank plc	14	Roxburghe Bank Ltd.	14½
Associates Cap Corp	15½	Exeter Trust Ltd	14½	Royal Bk of Scotland	14
● B & C Merchant Bank	14	Financial & Gen. Bank	14	Royal Trust Bank	14
Bank of Baroda	14	First National Bank Plc.	16	● Smith & Williamson Secs.	14
Banco Bilbao Vizcaya	14	● Robert Fleming & Co.	14	Standard Chartered	14
Bank Credit & Comm	14	Robert Fraser & Ptnrs.	14½	TSB	14
Bank of Cyprus	14	Girobank	14	Unibank plc	14
Bank of Ireland	14	● Guinness Mahon	14	● United Bk of Kuwait	14
Bank of India	14	● Hambros Bank	14	United Mizrahi Bank	14
Bank of Scotland	14	Hampshire Trust Plc	14½	Unity Trust Bank Plc	14
Banque Belge Ltd	14	Heritable & Gen Inv Bnk	14	Western Trust	14
Barclays Bank	14	● Hill Samuel	14	Westpac Bank Corp.	14
Benchmark Bank	14	C. Hoare & Co.	14	Whiteaway Laidlaw	14
Brit. Bk of Mid East	14	Hongkong & Shangh	14	Yorkshire Bank	14
● Brown Shipley	14	● Leopold Joseph & Sons	14		
CL Bank Nederland	14	Lloyds Bank	14		
● Charterhouse Bank	14	Meghraj Bank Ltd	14		
Citibank NA	14	McDonnell Douglas Bnk	14		
City Merchants Bank	14	Midland Bank	14		
Clydesdale Bank	14	Mount Banking	14		
Comm.Bk.of London Plc	14	Nat Bk. of Kuwait	15		
Co-operative Bank	*14				

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MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

MONEY MARKETS

UK rates soften

UK money market rates eased yesterday following a newspaper report which suggested that sterling's weakness within the European exchange rate mechanism would not prevent reductions in interest rates.

The key three-months interbank rate fell 1/16 point to 14-13⅞ per cent. In the futures market, March short sterling rose 12 points to 87.69.

Once again the Bank of England provided sufficient liquidity to meet the markets day-to-day credit needs. A total of £1.101bn of bills were purchased compared with the shortage of £1.1bn.

UK clearing bank base lending rate 14 per cent from October 8, 1990

During the morning, the Bank bought £163m of band 2 bank bills at 13¾ per cent. Before lunch a further £235m of bills were bought, including £14m band 1 bank bills at 13⅞ per cent; and £25m of Treasury and £196m of band 2 bank bills at 13¾ per cent.

In the afternoon, the Bank injected a further £493m, including in band 1, £107m of Treasury and £170m of bank bills at unchanged rates. In band 2 it bought £216m of bank bills at 13¾ per cent. Finally, late assistance of around £210m was provided at unchanged rates.

Among the factors contributing to the shortage were bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills, which drained £742m. A rise in the note circulation absorbed a further £380m and Exchequer transactions £95m. This was partly offset by bankers' balances £75m above target.

In Brussels the National Bank signalled a further tightening in monetary policy after it raised the interest rate on 14-day securities repurchase agreements and cut liquidity at its weekly auction of the paper. The central bank said it allocated repo agreements worth BFr10.825bn at 9⅞ per cent from 9 1/16 per cent last week. The repos replace agreements of BFr12.75bn expiring tomorrow.

In Frankfurt call money rates eased to 8.25-35 per cent from 8.40-50 following the Bundesbank's extra injection of liquidity into the banking system in this week's tender for securities repurchase funds. The central bank added a net DM2.2bn marks into the market.

The Bundesbank allocated one-month funds mainly at 8.55 and 8.65 per cent, while two-months liquidity was allocated at 8.75 and 8.85 per cent. A total of DM23.1bn was injected.

FT LONDON INTERBANK FIXING

(11.00 a.m. Dec.19) 3 months US dollars		6 months US Dollars	
bid 7⅝	offer 7¾	bid 7 9/16	offer 7 11/16

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (Lunchtime) — *Treasury Bills and Bonds*

Prime rate	10	One month	5.69	Three year	7.30
Broker loan rate	9½	Two month	6.60	Four year	7.49
Fed.funds	7	Three month	6.85	Five year	7.57
Fed.funds at intervention	-	Six month	6.91	Seven year	7.85
		One year	6.88	10-year	7.93
		Two year	7.16	30-year	8.11

Dec.19	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	8.30-8.40	9.05-9.20	9.10-9.25	9.10-9.25	9.15-9.30	8.50
Paris	9⅞-9⅞	10¼-10¼	-	10⅛-10⅛	-	9.25
Zurich	7⅞-8⅛	9¼-9½	-	9-9¼	-	-
Amsterdam	9.31-9.43	9.50-9.60	-	9.50-9.60	-	-
Tokyo	8⅛-8¼	8⅛-8⅛	-	8⅛-8⅛	-	-
Milan	12-12¼	14¼-14⅞	-	13⅞-14¼	-	-
Brussels	10.50	10⅛-10⅛	-	10⅛-10⅛	-	-
Dublin	10-10¼	10⅞-10⅞	10⅞-10⅞	11⅛-11⅛	11⅛-11⅛	-

LONDON MONEY RATES

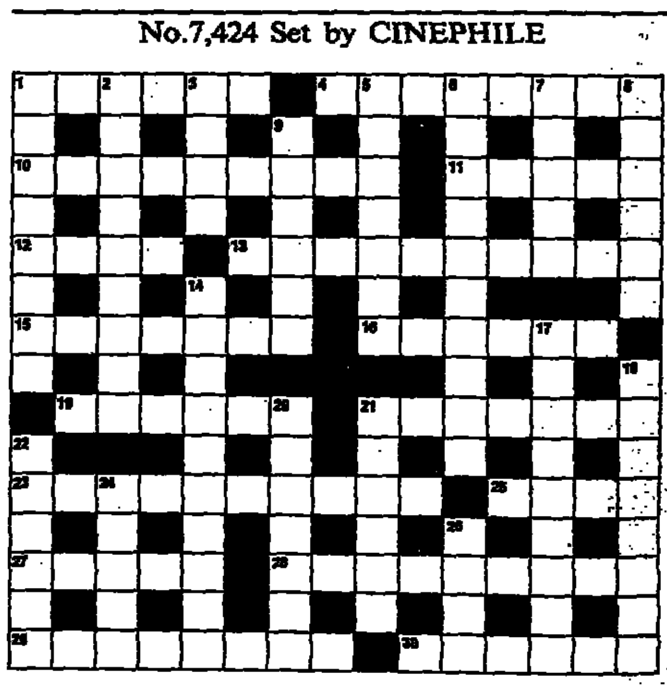
Dec 19	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	15	14⅜	14⅛	14	13⅞	12 13/16
Interbank Bid	13½	14¼	14⅛	13⅞	13¾	12⅝
Sterling CDs	-	-	14⅛	13 15/16	13⅛	12 13/16
Local Authority Deps.	14	14	14⅛	13 15/16	13⅛	12¾
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps.	14¼	14¼	13¾	13	-	-
Company Deposits	-	-	14¼	14	13¾	12 13/16
Finance House Deposits	-	-	14¼	14	13¼	12⅝
Treasury Bills (Buy)	-	-	13 15/16	13¼	-	-
Bank Bills (Buy)	-	-	13¾	13 13/16	12½	-
Fine Trade Bills (Buy)	-	-	14⅛	13 13/16	13¼	-
Dollar CDs	-	-	8.15	7.65	7.48	7.38
SDR Linked Dep. Offer	-	-	9¼	9⅛	9	9
SDR Linked Dep. Bid	-	-	9¼	8 13/16	8⅞	8⅞
ECU Linked Dep. Offer	-	-	10⅝	10⅝	10⅝	10⅝
ECU Linked Dep. Bid	-	-	10½	10½	10½	10½

Treasury Bills (sell); one-month 13 13/16 per cent; three months 13 5/8 per cent; six months 12¾ per cent; Bank Bills (sell): one-month 13 13/16 per cent; three months 13 5/8 per cent; Treasury Bills; Average tender rate of discount 13.0040 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day November 1, 1990. Agreed rates for period Dec 26,1990 to Jan 25, 1991, Scheme I: 14.59 p.c., Schemes II & III: 14.87 p.c. Reference rate for period Nov 30,1990 to Nov 30, 1990, Scheme IV&V: 13.698 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 14 from December 1, 1990: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 10½ per cent; one-three months 12 per cent; three-six months 12 per cent; six-nine months 12 per cent; nine-twelve months 11½ per cent; Under £100,000 10½ per cent from Oct 8,1989. Deposits withdrawn for cash 5 per cent.

JOTTER PAD

CROSSWORD

No.7,424 Set by CINEPHILE



P has the same meaning wherever is occurs in the clues

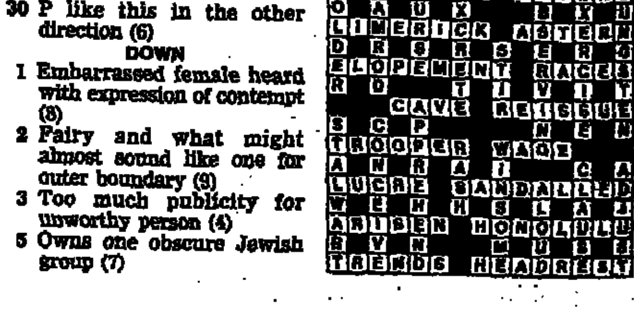
ACROSS

1 P finds energy at opening of public house (6)
4 Female beasts live in cutters (3-5)
10 P – possibly I perused one (9)
11 P of the second water? (5)
12 P of Rome (4)
13 P – what he says has value (10)
15 Solvers return after covering P (7)
16 P of little length and great weight (6)
19 Expression of disbelief in compiler's shoe (2,4)
21 Enclosure in vessel for queen and P (7)
23 Sprang up without currency, it's clearly shown (4-6)
25 Chessman needing redemption (4)
27 P read by small boy (5)
28 P dresses hussy with lace (9)
29 Sound of game continued by P (8)
30 P like this in the other direction (6)

DOWN

1 Embarrassed female heard with expression of contempt (8)
2 Fairy and what might almost sound like one for outer boundary (9)
3 Too much publicity for unworthy person (4)
5 Owns one obscure Jewish group (7)
6 Young Tory politician, turned by law into another, makes go-cart (4-6)
7 Red Robin? (5)
8 Look at the boil (6)
9 Instincts come to nothing in frigid folly (6)
14 Thirty pieces of silver, bad omen during oath (5,5)
17 They prevent aristocrats being beheaded without pets climbing in (9)
18 Drink up – South African money's coming in for descendant (8)
20 Amphibian, eating sailors, gets round in storm (7)
21 Female beast makes penultimate change in cutters (3-3)
22 Having little value, died during tease (3-3)
24 Learning name of film star (5)
26 Go away on foot, we hear (4)

Solution to Puzzle No.7,423



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WORLD STOCK MARKETS

[illegible]

CANADA

TORONTO

2pm prices December 19

[illegible]

INDICES

NEW YORK

DOW JONES	Dec. 18	Dec. 17	Dec. 14	Dec. 13	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	2626.73	2593.32	2593.81	2614.36	2999.75 (16/7)	2365.10 (11/10)	2999.75 (16/7/90)	41.22 (2/7/32)
Home Bonds	91.54	91.12	91.19	91.25	93.04 (3/1)	88.44 (24/9)	95.51 (9/2/87)	54.99 1/10/81)
Transport	907.05	895.24	903.11	916.79	1212.77 (6/6)	821.93 (17/10)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	211.08	208.56	208.56	209.32	236.23 (2/1)	190.96 (24/8)	236.23 (2/1/90)	10.50 (8/4/32)

♦Day's High 2639.36 (2600.74) Low 2583.17 (2563.61)

STANDARD AND POOR'S

	Dec. 18	Dec. 17	Dec. 14	Dec. 13	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	330.05	326.02	326.82	329.34	368.95 (16/7)	295.46 (11/10)	368.95 (16/7/90)	4.40 (1/6/32)
Industrials	386.06	381.96	382.53	385.42	437.37 (16/7)	346.86 (11/10)	437.37 (16/7/90)	3.62 (21/6/32)
Financial	23.55	22.87	23.16	23.51	31.87 (3/1)	18.80 (29/10)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	180.19	178.22	178.71	180.06	201.13 (16/7)	162.20 (11/10)	201.13 (16/7/90)	4.46 (25/4/42)
Amex Mkt. Value	305.08	303.99	305.74	306.71	382.45 (5/1)	288.07 (30/10)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	370.15	365.72	368.83	371.50	469.60 (16/7)	325.44 (16/10)	485.73 (9/10/89)	54.87 (31/10/72)

	Dec. 14	Dec. 7	Nov 30	year ago (approx.)
Dow Industrial Div. Yield	3.97	3.98	4.01	3.89
	Dec. 12	**Dec. 5**	**Nov.28**	**year ago (approx.)**
S & P Industrial div. yield	3.31	3.31	3.42	2.92
S & P Indl. P/E ratio	15.89	15.89	15.37	14.82

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Closing price	Change on day
Citicorp	3,463,000	14⅛	+ ¼
AT & T	2,771,800	31½	+ ¼
Mfr. Hanover	2,572,400	20⅞	+ 1⅞
Am. Express	2,225,900	21¼	+ ½
Philip Morris	1,987,700	51⅝	+ ⅞
Fannie Mae	1,806,300	35¼	+ 1½
Can. Pacific	1,679,500	17⅞	+ ⅛
Gen. Motors	1,633,000	35¼	+ 1¼
IBM	1,617,100	113½	+ 2
Unisys	1,558,800	2⅝	- ⅛

TRADING ACTIVITY

† Volume (Millions)	Dec. 18	Dec. 17	Dec. 14
New York	176.460	118.560	150.880
Amex	11.071	10.196	10.954
NASDAQ	131.976	111.866	119.503
Issues Traded	2,025	2,024	2,004
Rises	972	492	502
Falls	585	1,016	1,009
Unchanged	468	516	493
New Highs	25	5	6
New Lows	52	62	43

CANADA

TORONTO	Dec. 18	Dec. 17	Dec. 14	Dec. 13	1990 HIGH	1990 LOW
Metals & Minerals	2756.20	2758.70	2783.70	2782.90	3453.05 (4/1)	2486.60 (8/11)
Composite	3236.89	3232.97	3244.22	3252.56	4009.47 (3/1)	3009.91 (16/10)
MONTREAL Portfolio	1729.27	1723.78	1729.66	1743.01	2060.90 (3/1)	1607.24 (16/10)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Dec. 19	Dec. 18	Dec. 17	Dec. 14	1990 HIGH	1990 LOW
AUSTRALIA	[illegible]					
AUSTRIA	[illegible]					
BELGIUM	[illegible]					
DENMARK	[illegible]					
FINLAND	[illegible]					
FRANCE	[illegible]					
GERMANY	[illegible]					
HONG KONG	[illegible]					
IRELAND	[illegible]					
ITALY	[illegible]					
JAPAN	[illegible]					
MALAYSIA	[illegible]					
NETHERLANDS	[illegible]					
NORWAY	[illegible]					
PHILIPPINES	[illegible]					
SINGAPORE	[illegible]					
SOUTH AFRICA	[illegible]					
SOUTH KOREA	[illegible]					
SPAIN						
Madrid SE (30/12/85)	233.66	234.52	233.99	238.23	309.74 (16/7)	209.37 (28/9)
SWEDEN						
Affarsvarlden Gen. (1/2/37)	875.9	869.3	876.6	897.4	1329.9 (5/7)	815.6 (27/11)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	(u)	641.2	639.4	648.3	845.5 (13/7)	613.4 (28/9)
SBC General (1/4/87)	(u)	527.6	527.0	534.0	698.2 (13/7)	510.4 (26/11)
TAIWAN**						
Weighted Price (30/6/66)	3827.09	3919.73	4182.74	4304.31	12495.34 (10/2)	2560.47 (1/10)
THAILAND						
Bangkok SET (30/4/75)	623.58	619.04	621.98	649.58	1143.78 (25/7)	544.30 (30/11)
WORLD						
M.S. Capital Intl (1/1/70) (S)	473.9*	472.7	468.5	473.4	571.0 (4/1)	423.1 (28/9)

**Saturday December 15: Taiwan Weighted Price: 4319.47 Korea Comp Ex. 705.49

& Subject to official recalculation. *Calculated at 15.00 GMT.

Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE 26 Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Wednesday 19 December 1990

	Stocks Traded	Closing Prices	Change on day
Nippon Steel	38.1m	445	-5
S'tomo Metal	23.6m	469	-2
Mitsui Co	21.1m	807	+1
Marubeni	12.4m	716	+4
M'bishi Heavy	11.2m	715	0
Taisei Corp	10.3m	1,030	0
NKK	10.2m	416	-3
M'sui Shpbldg	9.8m	584	-1
Kajima Corp	9.7m	1,680	+40
S'tomo Cement	8.3m	834	+17

3pm prices December 19

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		- A - A - A -								
36⅞	9⅛	AAR	.48	5.1	6	2197	9⅝	9¼	9½	+ ⅛
8¾	7⅞	ACM n	1.01	11.		116	9	8⅞	8⅞	
11⅛	8⅛	ACMIn	1.26	12.		1398	10⅝	10⅜	10½	+ ⅛
9¼	8½	ACM M n	1.01	13.		1206	7⅞	7⅞	7⅞	+ ¼
12⅞	10	ACMMM	1.60	13.		208	11⅞	11⅝	11⅞	+ ⅛
11½	8⅞	ACM Sc	1.26	13.		1929	10	9⅞	10	+ ⅛
9⅞	7¼	ACMSp	1.01	12.		1032	8½	8⅜	8⅜	− ⅛
24⅝	17	AL Lab	.16		7 19	335	23½	23⅛	23½	+ ⅛
4½	1	AM Intl				586	1¼	1	1	− ⅛
18⅞	4⅝	AM In pf	2	29.		47	7	6⅞	7	
70¼	39⅞	AMR			16	2928	50⅞	49½	50⅛	+ ⅝
26½	25	ANR pf	2.67	10.		1	25½	25½	25½	− ⅛
4	1⅜	ARX				58	1⅝	1½	1½	− ⅛
72¾	38¼	ASA	3	7.0		1574	42⅞	40⅞	42⅝	+2
3½	2	ATTC wt				416	2	d 1⅞	2	− ⅛
46⅞	31¼	AbtLab	s.84	1.9	21	5865	46¼	44⅞	44⅞	− ⅛
14	10⅞	AbitIbi	g .50			7	10⅞	10⅞	10⅞	− ⅛
11⅝	4⅝	AcmeC	.40	8.4	11	107	4⅞	4⅜	4⅜	− ⅛
32¾	18⅞	Acuson s			21	3076	26⅛	25⅞	26⅛	+ ⅛
16⅞	14½	AdaEx	1.72e	12.		92	14⅞	14⅜	14⅜	− ⅛
16⅝	9½	Adobe				16	9⅝	d 9⅜	9⅜	− ⅛
20¾	16	Adob pf	1.84	11.		20	16⅛	16½	16⅛	
21⅝	19⅛	Adob pf	2.40	12.		16	19½	19½	19½	− ⅛
11⅜	3⅝	AMD				5994	5⅛	4⅞	5⅛	+ ⅛
32⅞	13	AMD pf	3	18.		98	16⅛	16	16⅛	
8¾	1⅝	Advest	.16	7.1		28	2⅜	2¼	2¼	− ⅛
58⅞	29	AetnLf	2.76	7.1	9	4315	39⅛	38⅝	38⅞	
12¼	6¼	AhPb	.24	3.0		522	7⅞	7⅝	7⅞	+ ⅛
22½	10⅝	Ahmans	.88	6.6	6	5108	13½	13	13⅛	+ ⅛

Continued on Page 39

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
22	17¾	RJR pf				4095	21½	21¼	21⅜	+ ¼
7¾	3¾	RJR Nb wt				1350	5	4⅞	4⅞	
14¾	8¼	RLI Cp	.44	3.1	6	30	14	13¾	14	+ ⅛
13	3¾	RMI Ti	.10	2.1		125	4⅞	4⅝	4⅞	
17⅝	5⅝	ROC Fd	.22e	3.0		152	7⅜	7⅛	7⅜	+ ¼
9⅝	5⅛	RPC			18	38	8½	8½	8½	
8¼	4½	RPS	.82e	16.	6	92	5½	5⅛	5⅛	
41¾	30	RTZ n	1.68e	4.8	9	38	35⅝	35½	35¼	− ⅛
67⅞	42⅞	Racal	.60e	1.2	25	208	51⅜	51⅛	51¼	
109⅝	77¾	RalsPur	1.85	1.8	15	1285	101⅝	99	99⅝	−2
[illegible]										
46½	42½	Xerox pf4.13		9.5		6	43½	42⅝	43½	+ ⅜
32¼	13	XTRA	.72	4.6		242	16⅜	14¾	15⅝	+ 1⅛
25	12½	XTRA pf1.94		13.		194	15¼	14½	15¼	+ ⅝
3⅝	5-16	Zapata				803	7-16	13-32	13-32	
8½	3	Zemex				95	3½	3½	3½	+ ⅛
13⅝	4	ZenithE				1586	8¼	7⅞	8	− ¼
18¼	9¾	ZenNtl	1	7.8	8	79	12⅞	12⅝	12⅞	
7½	4⅞	Zenix	.93	20.		407	4⅝	4½	4⅝	+ ⅛
17½	9⅞	Zero	.40	3.6	12	136	11⅞	10⅝	11⅛	+ ⅝
51⅛	28⅝	Zurn	.88	2.6	15	378	34⅝	33¾	34	
12⅝	10⅛	Zweig	1.18e	10.		267	11⅞	11⅛	11¼	+ ⅛
10	7⅞	ZweigTl	.84	9.8		1249	8⅞	8⅝	8⅞	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

3pm prices December 19

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

NASDAQ NATIONAL MARKET

3pm prices December 19

Stock	Div.	Sales 100s	High	Low	Last	Chng
[illegible]						

FINANCIAL TIMES
Thursday December 20 1990

AMERICA

Fed signal fails to move narrowly mixed equities

Wall Street

A QUIET morning on Wall Street saw equities turn narrowly mixed yesterday, as signs that the Federal Reserve had eased monetary policy failed to move the stock market, *writes Karen Zagor in New York.*

At 1.30 pm, the Dow Jones Industrial Average was down 3.46 at 2,623.27, with advances leading declines by a slim edge. On Tuesday, the Dow closed up 33.41 at 2,626.73.

The Federal Reserve gave a clear sign that it had cut its target for Fed Funds to 7 per cent from 7¼ per cent by arranging $1.5bn in customer repurchase agreements when the funds were changing hands at 7⅛ per cent.

Although the move, which comes on the heels of a 50-basis point reduction in the discount rate, was widely expected, it was less dramatic than some bond traders had hoped and at midsession the treasury's bellwether 30-year bond was down ⅛ at 106⅜.

In the stock market, some of the biggest losses came from the technology sector, where IBM lost $1⅛ to $112⅝ in heavy trading on reports that it would not start shipping an important piece of its Office-vision software this year. Shipments of the piece are already five months behind schedule.

Digital Equipment also lost ground after the company said that it would invest $230m in a joint venture with Mannesmann of Germany. At midday, Digital was off $1 at $58⅛.

Citicorp was the most active issue of the morning on the New York Stock Exchange, sliding $⅝ to $13⅛ after adding $⅜ a day earlier on the news that the bank plans to slash its dividend by 44 per cent and reduce its staff by 8,000.

A number of other bank issues rose after the easing in interest rates. BankAmerica climbed $1⅛ to $26¼, Manufacturers Hanover added $1¼ to $22½ and J.P. Morgan rose $⅝ to $45⅞.

American Express was unchanged at $21¾ in active midday trading after the company confirmed that its Shearson Lehman Brother brokerage business was discussing combining its back-office operations with Prudential-Bache Securities.

In the secondary market, the Nasdaq composite rose 0.06 to 370.25 at midsession. MCI Communications led the most active list, adding $¼ to $19⅝.

Meca Software plunged $2 to $6½. A number of analysts have cut their second-quarter earnings estimates for the company after Meca said late on Tuesday that an important new product had not been shipped in time for the holiday season.

La Petite Academy plummeted $2¾ to $5⅝ after the company, which operates child care centres, warned that its fourth-quarter earnings would be significantly lower than analysts had estimated, and would fall below the 13 cents a share reported in 1989.

Canada

RISING GOLD shares lifted Toronto stocks out of the doldrums in moderate midday trading. The composite index rose 11.2 to 3,248.1. Advances led declines by 250 to 199 on volume of 16.6m shares.

The Bank of Montreal cut its prime rate to 12.75 per cent from 13 per cent. Other banks were expected to follow suit.

Gold shares, led by American Barrick, rose after Comex bullion futures moved moderately higher.

Platinova Resources slipped 3 cents to C$1.57 after First Marathon Securities crossed a block of 2.18m shares. Campeau hit an all-time low, dropping 5 cents to 37 cents after it announced late on Tuesday a nine-month loss of C$10.82 a share versus a loss of C$8.77 in the same period a year earlier.

Germany uneasy in the shadow of history

Andrew Fisher reviews a year which is ending nervously after a record-breaking start

THE GERMAN stock market stood in the shadow of history this year, and the experience was not altogether comfortable.

In the first few months, the visionary enthusiasm brought on by the collapse of East Germany and the prospect of unity continued to drive the bourse, which touched a historic high at the end of March. But the exhilaration eased, problems of unification began to unfold and, in August, Iraq's invasion of Kuwait brought on an untimely cold spell.

The DAX index, 10 per cent above the 1989 year-end level by March 30 this year at nearly 1,970, had plummeted to 1,335 by September 28 for a net fall since the start of the year of 25 per cent. It closed yesterday at 1,457.24, down 19 per cent on the year to date.

The immediate outlook is confused. Will the Gulf crisis pass off peacefully without causing too much damage to the world economy as many countries move into recession? Or will a war over Kuwait accelerate the economic downturn? Will the US enter a long recession, or will its problems be less severe than many fear?

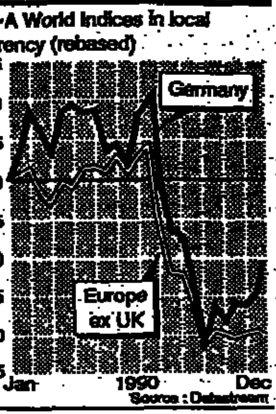
On top of these two big questions are the issues of what will happen to the Soviet Union and the rest of eastern Europe, as well as the stability of the Japanese financial system.

Trinkhaus & Burkhardt, the Düsseldorf bank, has put the worst and most favourable scenarios side by side in its latest stock market review and has left investors to decide for themselves. The stock market is already discounting much of the most pessimistic version, but more bad news could easily tip it into further decline.

For German shares, the difference between the booming domestic market and the sharper competition and weaker demand abroad has led to a considerable divide between profits trends at leading companies. Mr Christian Heger, a Trinkhaus analyst, notes: "Companies which are heavily involved in the home market have been showing marked profit rises, while those with a high share of business from outside have experienced falling results."

The big chemical concerns, BASF, Bayer and Hoechst, have suffered steep slides in third quarter profits, in spite of a slight rise in volume sales. They have been hit by the weakness of the dollar and other currencies against the D-Mark, the slowdown in growth in some key sales areas, and the higher oil, naphtha and other raw materials prices sparked off by the Gulf crisis. Thus 1991 looks like being difficult after the second-half slide of this year.

FT-A World Indices in local currency (rebased)



Car companies have also been knocked by adverse currency and profit trends abroad, with Volkswagen having additional problems in South America. VW has cost problems at home and is investing heavily in east Germany, Czechoslovakia and Spain, so analysts have downgraded their earnings forecasts, even though its cars have been selling well in Germany.

Up to mid-December, the German motor and components sector was among the worst performers in Germany, along with chemicals, and iron and steel. All three showed declines of well over 20 per cent.

The winners have been industries best placed to profit from the newly enlarged German market, namely consumer goods (up by more than 10 per cent) and retailing, construction and property.

Altogether, Trinkhaus expects earnings per share in Germany (based on the 30 DAX stocks) to fall by 5 per cent this year after a gain of 11 per cent in 1989. In 1991 they should edge up by 1 per cent. The high index weighting of the beleaguered cyclical sectors, such as chemicals and automobiles, accounts for the drop.

At this stage, reckons Mr Heger, "it is too early to look for a change in the market trend". The volatility of recent days has shown the confused state of the market. Moreover, German shares are not so cheap by international standards that they have become an automatic purchase. "Their price/earnings ratios are not such that you can say people have to buy," Mr Heger comments.

Even the most profitable German companies are facing higher costs, both of raw materials and of labour. The Bundesbank, which has reinforced its determination to keep the currency strong and monetary policy tight, is worried about the threat of 10 per cent wage deals and the prospect that inflation could go above the present 3 per cent. Thus further interest rate increases can not be ruled out.

With caution and selectivity the obvious watchwords for 1991, analysts are tending to go for safe blue chips such as Siemens, the electrical and electronics group, the Veba energy concern, Deutsche Bank and insurance group Allianz. All are big and resilient enough to withstand external shocks, as well as being energetically involved in east Germany, although the profits from unification will be preceded by heavy investment programmes.

ASIA PACIFIC

Nikkei approaches 25,000 on sharp rise in volume

Tokyo

EQUITIES rose in increased volume yesterday on hopes of lower interest rates following the discount rate cut in the US, *writes Emiko Terazono in Tokyo.*

The Nikkei average, while losing some of its upward momentum in the afternoon, closed 452.76 higher at 24,876.78. The index opened at the day's low of 24,473.21 and soon reached the day's high of 25,063.86, passing 25,000 for the first time in seven weeks. It could not sustain that level, however, as investors took profits.

Volume swelled to 620m shares from Tuesday's 350m as institutional interest was whetted by prospects of lower interest rates. Gains outnumbered losses by 686 to 278, with 171 issues unchanged. The Topix index of all first section stocks climbed 30.93 to 1,821.41, and in London the ISE/Nikkei 50 index put on 4.23 to 1,393.02.

Buyers were undeterred in early trading by reports that Mr Yasushi Mieno, governor of the central bank, had firmly denied that the interest rate reduction by the US Federal Reserve would affect monetary policy in Japan.

However, the market lost steam in the afternoon on statements by a spokesman at the US Department of Defence that America would start fighting Iraq on January 15, the deadline set by the UN Security Council for an Iraqi withdrawal from Kuwait.

High-technology stocks continued to strengthen. Sony gained Y170 to Y6,230, TDK added Y180 at Y4,490 and Pioneer moved ahead Y170 to Y4,120.

Some traders attributed their rise to year-end window dressing, but Mr Stephen Hill at Jardine Fleming Securities said export-related issues were bought on the weakness of the yen. "The dollar firmed against the yen despite the Fed's rate cut," he added.

Financials were sought on expectations of lower interest rates and a feeling that they had been oversold. IBJ appreciated Y190 to Y3,360 and Mitsubishi Bank Y170 to Y1,890.

Construction issues were in demand. The sector had recently been depressed on worries over falling land prices and a proposed land tax. Obayashi gained Y60 to Y1,830 and Kajima Corp added Y40 at Y1,680.

Some large-capital issues were heavily traded, although interest in steels and shipbuilders subsided.

In Osaka the OSE average advanced 359.81 to 26,655.38 on volume of 93.4m shares, well above Tuesday's 54.9m. Nintendo rallied Y300 to Y20,500. The issue had previously been sold on concern over margin positions and depressed sales in the US.

Roundup

ANTICIPATION of moves to improve the domestic economy boosted New Zealand, but trading throughout the Pacific region was quiet yesterday.

NEW ZEALAND advanced by 1.4 per cent in expectation of a government economic package, announced after the market closed. Investors hoped that the statement would lead to a reduction in interest rates. The Barclays index rose 16.59 to 1,190.06.

Turnover was boosted to NZ$139m from Tuesday's NZ$12.1m by a block sale of 60m Carter Holt Harvey shares worth NZ$130.8m. National Mutual Life Association sold the shares to Brierley Investments, which raised its stake in CHH to 21.1 per cent from 9.6 per cent, while National Mutual lifted its holding in Brierley to 5 per cent from 1.6 per cent. Brierley rose 5 cents to 99 cents, while CHH lost a cent to NZ$1.94.

AUSTRALIA firmed slightly from the previous day's 33-month low, but economic worries restrained buying. The All Ordinaries index edged up 0.5 to 1,284.1 in turnover of A$254m, up from A$193m.

Continuing concern about Adsteam's restructuring pulled the stock to a record low of 15 cents, before it ended the day 4 cents, or 20 per cent, lower at 16 cents. David Jones, an Adsteam associate, fell 6 cents to 34 cents after stating that it was unlikely to pay a dividend in the current year.

Howard Smith advanced 11 cents to A$4.06 after directors said that profits for the year would be at least equal to last year's. Foreign demand lifted Coles Myer, the retailer, 18 cents to A$8.14.

National Australia Bank lost 2 cents in busy, dividend-related trading of 11.2m shares.

TAIWAN went into reverse after an early rise, with the weighted index ending 92.64, or 2.4 per cent, lower at 3,827.09 after reaching a day's high of 4,045.27. SEOUL dropped through the 700 level on the composite index as investors sold to raise funds to settle their accounts by the end of the year. The index lost 8.54 to 697.54 in low turnover.

BANGKOK's SET index rose 4.54 to 623.58, although gains were limited by selling triggered by a decline in Siam Cement, which is heavily weighted in the index. Siam Cement, which lost 200 baht at one stage, ended 40 baht up at 5,306 baht.

Thai Airways International stated that it planned to list part of its shares on the exchange next year in spite of world market conditions.

HONG KONG gained ground in quiet trading, the Hang Seng index adding 16.79 at 3,083.44, led higher by the property sector. But turnover fell to HK$489m from HK$681m.

BOMBAY dropped for the third day in a row in spite of a ban on short sales. The BSE index lost 53.32 to 1,058.41.

EUROPE

Early optimism over US rate cut fades away

THE DISCOUNT rate cut overnight in the US gave an early fillip to bourses, but enthusiasm soon faded. Frankfurt was the day's worst performer, amid worries about domestic interest rates and prospects for industry, *writes Our Markets Staff.*

FRANKFURT tried to respond to Wall Street's overnight rally and Tokyo yesterday but, said Mr Jens Wiecking of Merck Finck in Düsseldorf, a rise of 1½ per cent in the pre-bourse found no support when dealings began.

Speculation about the US discount rate was replaced by trepidation about German interest rates, as the Bundesbank gave markets a strong warning that it might have to increase the domestic discount rate, given price instability and excessive borrowing.

Added to that, said Mr Wiecking, the US discount rate drop also meant a lower dollar, and further problems for German industrial companies; Merck Finck saw some good selling orders from abroad.

Volume rose from DM3.3bn to DM4.1bn. After a fall of 8.54 to 628.99 in the FAZ index at midsession, the DAX closed the day 20.17, or 1.4 per cent, lower at 1,457.24.

Among individual stocks, Schneider Rundfunkwerke, the audio, video and personal computer group, dropped another DM75 to DM600, down DM130 over three days after reporting slightly lower earnings.

Continuing growth stocks did not do much better. Hochtief dropped DM50 to DM1,168 although Germany's construction industry association said that the country's construction boom would continue in 1991, and, in retailing, Kaufhof shed DM6.50 to DM493.

Mr Wiecking observed that high p/e stocks have shown relative weakness over the past six weeks; high p/e's are seen as dangerous in the present state of the market, and some investors need to take the profits that still exist in the retail and construction sectors.

STOCKHOLM recovered from early lows. The Affärsvärlden General index rose 6.6 to 875.9 in SKr245m turnover.

The forestry sector index rose 2.3 per cent on the back of sharp gains in SCA, MoDo and Stora. After the market closed, however, SCA said that it expected profits after financial items to fall 20 per cent in 1990 from SKr2.71bn in 1989.

Ericsson, which has been appointed the official provider of telephone systems and digital phones for the 1992 Olympic Games, saw its free B shares rise SKr2 to SKr181.

PARIS was wary as the new monthly trading account began, with investors conscious of the fact that January 15, the United Nations' deadline for an Iraqi withdrawal from Kuwait, falls within the account.

The CAC 40 index finished 2.33 lower at 1,589.32, after fluctuating between 1,619.22 and 1,578.39. Turnover was modest at FFr2.1bn at the official bourse close, compared with FFr2.8bn at the close on Tuesday, although this was amended to FFr3.9bn once the late trades were added in. Volume has been boosted in recent sessions by the movement of blocks of shares for tax purposes at the year-end.

Navigation Mixte was the most active stock for this reason, rising FFr11 to FFr1,300, after swinging between FFr1,379 and FFr1,240. It saw 350,700 shares traded, worth about FFr455m.

Pechiney International continued to fall after a broker's downgrading, losing FFr6.20 or 4.8 per cent to FFr122.80.

MILAN was flat in low volume estimated to be less than Tuesday's L90bn as trading slowed down before Christmas. Worries about the Gulf also held back activity. The Comit index eased 0.02 to 534.29.

Pirelli held up well, gaining L70 to L1,800. Although there was no specific story circulating in the market, dealers said the buying interest led them to believe that Pirelli had a strong chance of success in its takeover attempt of Continental of Germany.

Acqua Marcia remained suspended in spite of the news that it had sold real estate properties for about L500bn. Trading in the stock is expected to resume next week after the company has provided the stock exchange authorities with the necessary information regarding the sale.

Sip was L7 better at L1,217 after winning tariff increases for telephone rentals and calls. Some dealers said concern that Sip could lose its mobile phone monopoly held the stock back. Setemer, the telecoms supplier which is majority-owned by Ericsson of Sweden, rose L200 to L46,150.

AMSTERDAM rolled over and went back to sleep. The CBS Tendency index closed at 95.7, down 0.1.

NatNed fell in relatively active trading as investors took the view that the insurance company would proceed with its merger with NMB Postbank, the terms of which favour NMB shareholders. The stock lost 20 cents to Fl 48.60.

BRUSSELS rose but finished off its high in thin trading. Petrofina gained BFr100 to BFr9,940 in active trading of 16,940 shares; today is the last day for investors to convert warrants into shares and still be eligible for a dividend payment on 1990 earnings.

SOUTH AFRICA

GOLD SHARES closed slightly higher in thin trading as the bullion price rose. The JSE all-gold index added 1 to 1,112, but the overall index eased 2 to 2,667. Vaal Reefs rose R5 to R186, while De Beers closed steady at R67.65.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	TUESDAY DECEMBER 18 1990								MONDAY DECEMBER 17 1990					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1990 High	1990 Low	Year ago (approx)
Australia (75)	118.35	−0.3	90.68	99.68	91.31	102.39	−0.7	7.78	118.76	91.37	100.03	91.82	103.12	158.31	118.35	148.66
Austria (19)	205.44	−0.7	157.41	173.05	158.51	158.30	−1.0	1.73	206.81	159.11	174.20	159.86	159.85	285.63	178.57	168.00
Belgium (60)	134.49	−1.0	103.05	113.27	103.76	101.99	−1.0	5.63	135.91	104.57	114.47	105.07	103.06	160.02	126.67	148.64
Canada (120)	129.38	+0.1	99.13	108.97	99.81	108.44	+0.1	3.70	129.24	99.44	108.85	99.91	108.33	153.61	121.24	149.61
Denmark (33)	241.22	−1.9	184.82	203.18	186.11	188.24	−1.8	1.60	245.84	189.14	207.07	190.05	191.67	277.62	234.05	234.18
Finland (25)	101.76	−0.4	77.97	85.71	78.51	76.70	−0.6	3.98	102.13	78.58	86.03	78.96	77.15	152.29	98.91	130.32
France (122)	137.04	−0.2	105.00	115.42	105.72	108.66	−0.9	3.83	137.33	105.66	115.67	106.16	109.65	168.85	124.98	147.41
Germany (91)	119.28	−0.5	91.39	100.48	92.02	92.02	−0.7	2.47	119.92	92.27	101.02	92.71	92.71	144.63	101.38	111.86
Hong Kong (48)	123.53	+0.6	94.65	104.04	95.31	123.73	+0.5	5.41	122.81	94.49	103.44	94.95	123.07	147.49	112.24	119.88
Ireland (16)	155.20	−1.7	118.91	130.72	119.74	122.03	−1.8	4.25	157.81	121.41	132.92	122.00	124.29	198.57	139.04	174.33
Italy (91)	81.97	−0.2	62.80	69.04	63.24	66.64	−0.3	3.59	82.10	63.17	69.15	63.47	66.88	109.26	75.73	95.36
Japan (453)	130.61	+0.8	100.07	110.01	100.76	110.01	+0.8	0.78	129.51	99.64	109.09	100.14	109.09	197.26	106.58	195.77
Malaysia (35)	202.37	−0.7	155.06	170.45	156.13	210.52	−0.6	3.21	203.87	156.86	171.72	157.61	211.88	260.88	182.96	221.16
Mexico (12)	589.12	−0.6	451.38	496.21	454.52	1896.59	−0.7	0.36	592.83	456.11	499.34	458.31	1910.81	613.96	324.53	309.42
Netherland (41)	135.29	+0.5	103.66	113.95	104.38	103.33	+0.3	5.20	134.64	103.59	113.40	104.09	103.02	149.03	127.56	137.20
New Zealand (15)	42.62	−0.9	32.65	35.90	32.88	38.47	−0.3	8.89	43.01	33.08	36.23	33.25	38.57	75.36	42.62	71.09
Norway (27)	212.72	−0.4	162.99	179.18	164.13	168.40	−0.3	1.84	213.55	164.30	179.88	165.10	168.99	276.79	202.34	191.94
Singapore (25)	160.84	+0.4	123.24	135.48	124.09	127.60	+0.8	3.46	160.19	123.25	134.93	123.84	126.60	209.24	147.24	174.63
South Africa (60)	178.79	+0.1	136.99	150.59	137.94	133.62	−0.4	4.09	178.69	137.48	150.51	138.14	134.22	251.39	151.50	189.26
Spain (41)	147.43	+0.1	112.96	124.18	113.74	106.16	+0.1	5.25	147.28	113.31	124.06	113.86	106.05	182.25	128.54	161.37
Sweden (27)	161.68	−0.7	123.88	136.19	124.75	134.04	−0.7	3.03	162.77	125.23	137.10	125.84	135.00	234.93	153.11	182.48
Switzerland (68)	90.21	+0.7	69.12	75.99	69.61	71.03	+0.3	2.96	89.59	68.93	75.46	69.27	70.84	109.77	85.00	90.74
United Kingdom (298)	167.19	+0.6	128.10	140.81	128.98	128.10	+0.2	5.46	166.24	127.90	140.01	128.51	127.90	176.18	139.87	152.54
USA (533)	133.28	+1.3	102.12	112.27	102.83	133.28	+1.3	3.72	131.63	101.27	110.88	101.77	131.63	148.95	119.06	138.66
Europe (959)	138.18	+0.1	105.88	116.39	106.62	106.70	−0.2	4.38	138.04	106.20	116.27	106.72	106.95	157.85	124.91	135.33
Nordic (112)	172.13	−1.1	131.89	144.99	132.81	132.84	−1.1	2.29	174.12	133.96	146.66	134.61	134.35	223.29	170.59	179.68
Pacific Basin (661)	129.54	+0.8	99.26	109.12	99.95	109.84	+0.8	1.18	128.53	98.89	108.27	99.37	108.99	192.75	107.62	191.02
Euro - Pacific (1610)	133.42	+0.5	102.22	112.37	102.93	109.30	+0.3	2.52	132.78	102.14	111.81	102.63	108.92	174.18	116.03	166.86
North America (653)	132.95	+1.2	101.87	112.00	102.59	131.64	+1.2	3.72	131.40	101.09	110.69	101.60	130.10	148.43	119.28	139.21
Europe Ex. UK (661)	120.24	−0.2	92.13	101.30	92.79	94.09	−0.5	3.55	120.53	92.73	101.54	93.20	94.58	145.82	108.94	123.68
Pacific Ex. Japan (198)	116.29	+0.0	89.10	97.97	89.73	104.08	−0.1	6.45	116.30	89.48	97.97	89.92	104.23	146.72	116.03	134.06
World Ex. US (1802)	133.99	+0.5	102.66	112.87	103.38	109.97	+0.3	2.57	133.96	102.60	112.33	103.10	109.61	173.77	117.12	168.48
World Ex. UK (2037)	129.32	+0.8	99.08	108.93	99.78	116.13	+0.7	2.65	128.34	98.74	108.11	99.23	115.31	182.00	115.37	157.22
World Ex. So. Af. (2275)	132.40	+0.7	101.45	111.53	102.16	117.19	+0.7	2.96	131.42	101.11	110.70	101.61	116.43	161.84	118.04	156.59
World Ex. Japan (1882)	135.07	+0.7	103.49	113.78	104.23	121.12	+0.5	4.07	134.14	103.21	113.00	103.72	120.46	161.59	124.31	138.24
The World Index (2335)	132.68	+0.7	101.66	111.76	102.37	117.30	+0.6	2.97	131.70	101.33	110.94	101.83	116.55	162.05	118.33	156.76

Latest prices were unavailable for this edition.

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